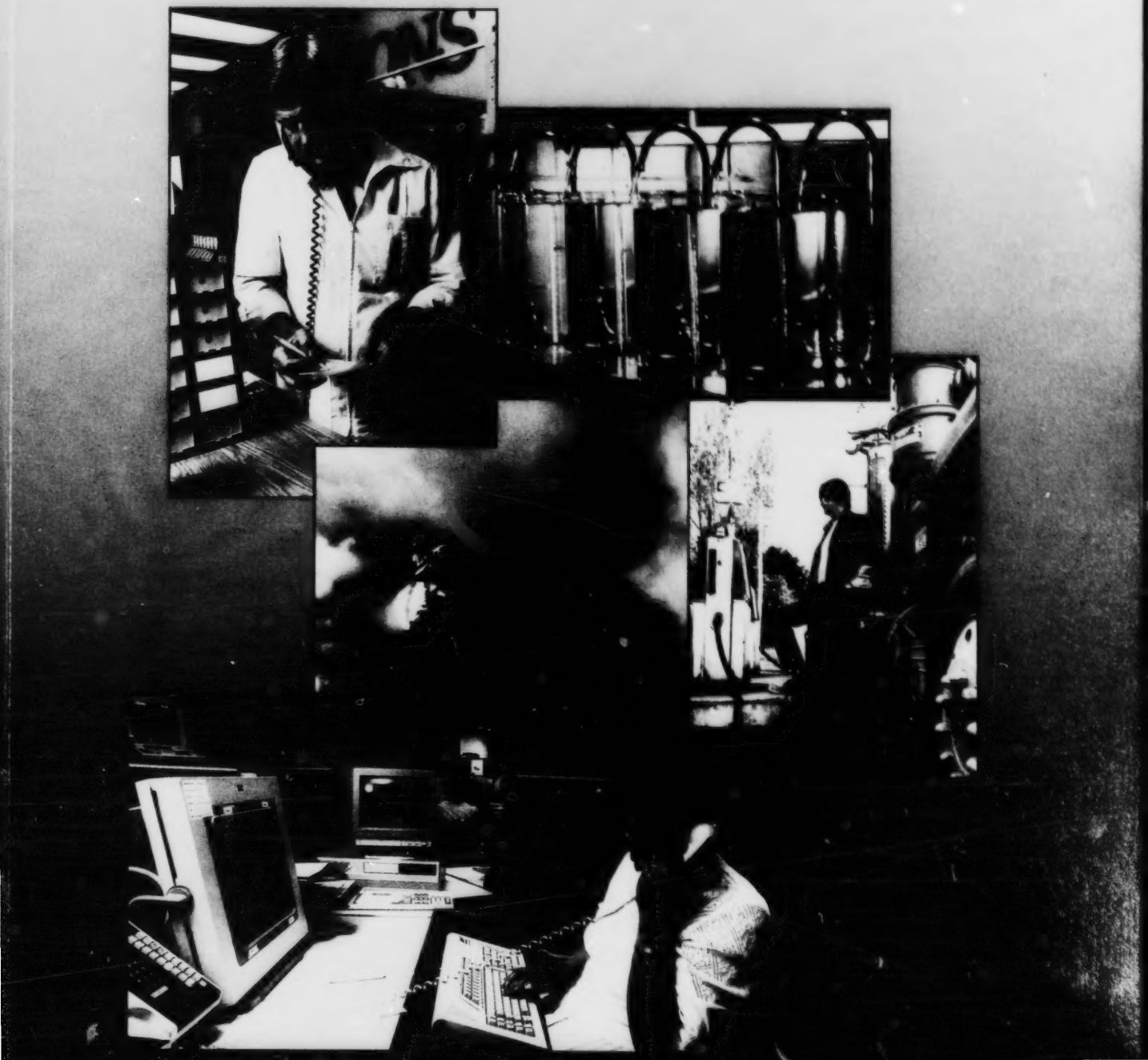
Ontario

OFFICE OF THE PROVINCIAL AUDITOR

1988 ANNUAL REPORT



Ontario

OFFICE OF THE PROVINCIAL AUDITOR

THE HONOURABLE
HUGH EDIGHOFFER, M.P.P.

Speaker of the Assembly
Province of Ontario

Dear Sir:

I am pleased to transmit my report covering audits completed during the year ended September 30, 1988, for submission to the Assembly in accordance with the provisions of section 12(1) of the Audit Act.

D.F. Archer, F.C.A.,
Provincial Auditor.

Toronto, November 30, 1988.

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1. - Government-Wide Matters and Special Reviews.
2. - Ministry Audits.
3. - Agency of the Crown Audits, year ended March 31, 1988.
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CHAPTER 1
SIGNIFICANT AUDIT OBSERVATIONS

1.1 Basis of Reporting

The contents of this Report are pursuant to section 12(2) of the Audit Act. A major provision of the legislation requires that the Auditor bring to the attention of the Legislative Assembly instances where he has observed significant deficiencies in government administration.

In order to better assist the Assembly in its role of holding the government accountable, we endeavour to go beyond this basic requirement. In most audits we attempt to assess how well a particular government function is being administered, and to support that assessment with relevant comments and observations. Generally, therefore, observed matters are reported in the context of a conclusion on the overall quality of administration for the specific area subject to audit.

The Report does contain some observations which are not made in the context of a broad audit conclusion or assessment. These primarily relate to our Crown agency audit activities where the focus of the audit is on the expression of an opinion on the agency's financial statements. The reader is cautioned against drawing unwarranted conclusions from such observed matters. These observed matters are simply that. It would be incorrect, for example, for the reader to conclude that other similar transactions were handled in a like manner.

There is a general view that our Reports unduly emphasize deficiencies without giving credit for the many situations where no significant irregularities were observed. To a large extent this result is unavoidable given the reporting requirements of the Audit Act. However, we have attempted to moderate this general perception by also drawing attention to some of the positive aspects of government administration noted in the course of audit.

It should also be noted that some comments in the Report are purely informational in content, and are included because, in our view, the matters should be brought to the attention of the Assembly.

1.2 Scope of Audit Activity

The Province's revenue and expenditure for the fiscal year ended March 31, 1988 totalled $32.5 billion and $34.9 billion, respectively. Over 25 ministries were involved in the administration of hundreds of revenue and expenditure programs and in the operation of associated financial and information systems.

The size and complexity of government operations precludes an all-inclusive audit on an annual basis. Accordingly, the Office audits a selection of programs and systems each year, so that over a four to five year period all major operations are reviewed.

Additionally, the Provincial Auditor attests to the fairness of the financial statements of the Province and over 60 Crown agencies on an annual basis.

Significant Audit Observations

1.3 Overall Assessment

It is difficult to establish measurable criteria against which the overall administrative performance of government can be assessed. Consequently, we do not have the necessary audit evidence on which to base such an assessment. Nevertheless, we are not without some conviction in the matter.

We believe that professional training and years of experience enable us to recognize good management and to understand good management practices. We also believe that through our long audit association with government, we have a good understanding of the nature of government and its operating environment. Based on these factors, it is our opinion that the Government of Ontario is being satisfactorily administered overall.

While there will always be instances of weaknesses and deficiencies in operations of the scope and size of the Ontario Government, it is our view that these are the exception rather than the rule, and that on balance, administration of public funds continues to improve.

We are pleased to report that we received all the information and explanations required. We would like to acknowledge and thank all those from whom we received assistance.

1.4 Report Highlights

Increasing Inspection Audits

In Ontario, transfer payments represent over 70 per cent of provincial expenditures. In keeping with the trend towards greater government accountability, in recent years this Office has expanded inspection audit activity to specifically address the major recipients of transfer payments.

Beginning in 1984, in response to concerns expressed by the Public Accounts Committee, the Office undertook a special review of community colleges. One college was inspected each year for three successive years, the results of which were summarized in our 1984, 1985, and 1986 Annual Reports.

In 1987, this Office extended inspection audit activity to the university community with our examination of Trent University (Section 2.6 of this Report). We are planning to conduct inspection audits of two more universities and to extend our audit coverage to other major recipients of transfer payments such as hospitals.

Government Advertising and Communications

We audited advertising and communications expenditures across five ministries and one Secretariat. Relevant expenditures exceeded $30 million in 1988.

In general, we concluded that advertising goods and services were acquired with insufficient regard for economy. In particular, we noted a widespread disregard

for administrative documentation that would justify the reasonableness of the costs incurred, and numerous instances of excessive costs and questionable expenditures. We also concluded that adequate systems to evaluate the results of advertising projects were generally lacking. (Section 2.4)

Better Administrative Practices Required

A number of audits disclosed instances of poor administration and management. In several cases, the cost implications were significant.

- The Institutional Health Program of the Ministry of Health is currently providing over $5 billion per year in operating grants to 223 public hospitals, which represents 85 per cent of the revenue of Ontario hospitals. We concluded that Ministry monitoring procedures inadequately ensured that operating grants to hospitals were well spent.

  The Ministry provided $33 million in deficit funding to 69 hospitals in 1987. Due to the large number of hospitals which had received deficit funding and the failure of either the Ministry or hospitals to satisfactorily account for all causes of the deficits, the Ministry hired several consulting firms to identify factors that had contributed to the deficits. (Section 3.9)

- The Ministry of Community and Social Services' income maintenance activities provide financial assistance to Ontario residents in need, primarily through Family Benefit Allowances and General Welfare Assistance. In 1988, expenditures totalled $1.9 billion of which $604 million pertained to General Welfare Assistance.

  We reviewed this Assistance activity and concluded that the Ministry's monitoring procedures were inadequate to ensure that legislation and Ministry guidelines were followed by municipalities in delivering the program Resources were insufficient to conduct regular eligibility reviews of those receiving Assistance. (Section 3.3)

  We also reviewed the development and implementation of a major computer project designed to support the administration of income maintenance activities. In our opinion, the Ministry had not exercised proper time and cost controls, resulting in project delays and cost escalation. (Section 3.2)

- In 1987, the Government provided subsidies to the Ontario Northland Transportation Commission of $24.8 million of which $18.1 million was for Rail Passenger Services. We reviewed Rail Passenger Services and determined that they could be provided more economically. Opportunities existed for raising additional revenues and decreasing operating costs, thus reducing annual Government subsidies. In addition, we questioned the refurbishing of acquired passenger cars that may sit idle for most of the year. (Section 4.5)

- The Design Activity of the Ministry of Transportation spent $79 million in 1988, $19 million of which went to engineering consultants and related services. We observed that better control of resources, particularly in the use of consultants in the design of provincial highway construction projects, would have resulted in cost savings. (Section 3.13)

Improved Services to the Public Needed

Several audits involved elements of program delivery that have a direct effect on the quality of life for segments of society. For example:

- The Computers in Education initiative of the Ministry of Education develops and integrates microcomputers and educational software into the curriculum of Ontario's schools. Expenditures to date for the program total $131 million, $48 million of which was spent in 1988.

  The Ministry sponsored an "ideal" computer for Ontario's education system. Problems created by the unique and advanced features of this computer have limited the success of the overall initiative. The computer, for example, is incompatible with others in the marketplace and existing educational software is unusable. Software development for the sponsored computer has been less than satisfactory, and inadequate emphasis has been placed on the effective implementation of computers in the classroom. (Section 3.6)

- Water and sewage treatment plants in Ontario are operated either by municipalities or the Ministry of the Environment. We concluded that the Ministry of the Environment had weak monitoring and control procedures to ensure water and sewage were treated in accordance with Ministry requirements. Water and sewage treatment plants were not regularly inspected. Furthermore, there was incomplete information on the quality of both drinking water and water returned to lakes and rivers through the sewage treatment system. For example, there was inadequate information about the effect on the environment of sewage which bypassed treatment plants. (Section 3.7)

- The prevention, detection and control of forest fires are the responsibility of the Ministry of Natural Resources. Relevant expenditures totalled $79.1 million in 1988. We noted that improved monitoring of the use of staff and aircraft was needed to ensure more efficient utilization of these resources. For example, recurring problems with deployment of fire crews and response times were not being identified and corrected. (Section 3.11)

Positive Developments

Accountability for Transfer Payments

Transfer payments amounted to $25.4 billion for the 1988 fiscal year. The need for better accountability regarding transfer payments has long been a concern of this Office. In our 1983 and 1984 Annual Reports, for example, we commented

extensively on the subject, with particular reference to a major Government initiative underway at that time.

Unfortunately, subsequent progress was slow to materialize. However, in 1988, Management Board Secretariat revitalized the initiative by preparing a directive on accountability for transfer payments. Cabinet approval of the directive was obtained in May 1988.

The directive and its recently developed, companion guideline require each Ministry to implement an accountability process which sets out the planned objectives and results that the transfer payment recipient is to achieve. The process must also ensure that the recipient reports the achievement of objectives and results on a timely basis, and takes corrective action when objectives and results are not being achieved. Ministry implementation of the accountability processes is expected to commence in April 1989. (Section 2.2)

Government Accountability

Last year we scrutinized the Government's accountability to the Legislature, the cornerstone of which is the Estimates. We stated that, if the Government is to be properly accountable to the Legislature, the Estimates review process must be effective. However, far from being effective, the process is sadly deficient.

Playing a lead role as we suggested, the Public Accounts Committee tabled a Special Report on the Estimates Process in June 1988. The Report incorporated several of the recommendations which we and others had made, including the establishment of a Standing Committee on the Estimates that would conduct an annual, in-depth scrutiny of selected Estimates. Although the Legislature recessed before the recommendations could be addressed, we fully expect they will receive appropriate consideration when the Legislature reconvenes in the fall. (Section 2.3)

Good Administrative Practices

Although our reporting mandate stresses the disclosure of deficiencies, evidence of good administration is often acknowledged. For example:

- Through its Ontario Communications Network, the Ministry of Government Services achieved monthly savings of $1 million while providing an efficient level of service. (Section 3.8)

- In our audit of the Ministry of Natural Resources' firefighting initiatives, we were impressed with the Ministry's concerted effort to educate and inform the general public and industry about safe practices in forests. (Section 3.11)

- During 1988, the Ministry of Transportation's Municipal Roads Program provided municipalities with subsidies totalling $628 million. We concluded that the Ministry had adequate controls to ensure that the allocations were equitable and reflective of both the needs and the funding capabilities of municipalities. (Section 3.14)

Significant Audit Observations

1.5 Serving the Public

The Office of the Provincial Auditor can be contacted by any member of the public who has a concern about the administration of Ontario Government programs.

Information received will be treated confidentially and considered for appropriate action or investigation. Any significant findings resulting from investigations undertaken will be included in subsequent Annual Reports to the Legislature.

Contact may be made by telephone at (416) 974-9866 or by writing to :

Office of the Provincial Auditor,
Box 105, 20 Dundas Street West,
Toronto, Ontario.
M5G 2C2

CHAPTER 2
COMMENTS ON GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS

2.1 Introduction

Comments contained in this segment of the Report pertain to audit observations and recommendations resulting from government-wide and special reviews. A list of all reviews completed during the year is included in Exhibit 1.

2.2 Accountability for Transfer Payments

INTRODUCTION

The need for much better accountability in respect of transfer payments has long been a concern of this Office. In our 1983 and 1984 Annual Reports, for example, we commented extensively on the subject, with particular reference to a major government initiative underway at that time. The purpose of this year's report section is to recap and update the status of that initiative.

Significance of Transfer Payments

Transfer payments amounted to $25.4 billion or approximately 72.7 per cent of the Province's total expenditure for the 1988 fiscal year. Transfer payments are the largest category of Provincial expenditure and include major recipients such as hospitals, school boards, universities, municipalities and colleges.

Transfer payments which are made directly to, or specifically on behalf of, members of the public amounted to $6.6 billion or approximately 26.1 per cent of total 1988 transfer payments. For example, income support payments are made directly to individuals, and payments are made to physicians and pharmacists for services provided to the public. The government has complete control over such payments and should have the means readily at its disposal to be fully accountable to the Legislature.

Intermediary organizations or bodies providing services to the public (e.g. hospitals, universities) received $18.8 billion or approximately 73.9 per cent of total 1988 transfer payments. The government does not have complete control over the use, the safeguarding or the expenditure of the funding. Consequently, the government must seek required information and/or assurances by other means if it is to satisfy its responsibility to the Legislature.

Task Force on the Auditing of Ontario Government Transfer Payment Recipients

In early 1982, Management Board of Cabinet established a senior level interministeria! task force to address the auditing of transfer payment recipients, primarily those intermediary organizations or bodies providing services to the public.

RECOMMENDATIONS OF THE TASK FORCE

Accountability relationships between ministries and their transfer payment recipients are diverse, reflecting differences in program size and type, financing, organizational structure and public accountability. In its 1983 report the Task Force recommended that ministries be required to examine the existing

accountability relationships and frameworks for each transfer payment program. The accountability frameworks were to include the setting of objectives and also provide for the comparison of actual results and expectations.

The mutually agreed-upon objectives and expectations were to be established by the ministries in cooperation with the recipients. Also, the objectives were to include the requirement that recipients manage their programs with due regard for economy, efficiency and effectiveness. The accountability frameworks would thus provide the basis for improved accountability and effective auditing.

The Task Force also recommended that the auditing of transfer payment recipients be broadened to include the evaluation of management controls, that is, those concerned with economy, efficiency and effectiveness.

In its 1983 report the Task Force recognized that audit is a process superimposed on an accountability relationship to provide assurance that information is valid and reliable. The Task Force also emphasized the dependence of effective auditing on a clear statement of the objectives which the recipients are accountable for achieving with the funds.

IMPLEMENTATION OF RECOMMENDATIONS

Gradual Approach

In February 1984 Cabinet approved a gradual approach to implementing the Task Force's recommendations. This approach provided for a first stage of dialogue and analysis, the results of which would be used in planning for the subsequent stages of implementation.

In April 1984 the Secretary of the Management Board of Cabinet requested that the ministries develop an implementation plan for the first stage and provide a copy to Management Board. Management Board intended to review the implementation plans to identify any apparent issues which could be addressed on a corporate basis. During the 1985 fiscal year ministries submitted their first stage implementation plans and received feedback on accountability mechanisms and implementation approaches that were considered useful for sharing amongst ministries.

The Secretary had also requested the ministries to report to Management Board during the 1986 fiscal year on their first stage results and findings, together with specific proposals for future action. Subsequently, the Management Board Secretariat informed Deputy Ministers that the Secretariat was particularly interested in the outcome of the ministries' reviews of goals and objectives, and any steps which might be taken to improve the accountability process.

Responses took various forms, ranging from detailed multi-page documents, to a few pages, to letters indicating that the ministries, for various reasons, would not be providing a submission.

Extended Implementation Process

Progress in implementing the Task Force's recommendations was less than anticipated. The Management Board Secretariat recognized that the gradual

approach proposed by Cabinet had not provided the impetus necessary to achieve an early implementation of the recommendations. As well, during this period, the Secretariat was actively involved in a review of the accountability relationship between ministries and the Board and the production of a new manual of directives describing this new relationship. This task was seen as a pre-requisite to the establishing of an accountability framework between ministries and transfer payment agencies.

As a result of renewed efforts during the 1988 fiscal year, the Secretariat developed a draft Directive on accountability for transfer payments which was sent to Deputy Ministers for their review and comments.

The Secretariat submitted a synopsis of the ministries' first stage results and the draft Directive on Transfer Payment Accountability to Cabinet, and obtained approval of the Directive on May 3, 1988.

Directive on Transfer Payment Accountability

The mandatory requirements of the Directive involve an accountability process that must clearly set out the planned objectives and results that the recipient is to achieve, and ensure that the recipient:

- understands or agrees with these objectives and results;
- reports the achievement of objectives and results on a timely basis; and
- takes corrective action when objectives and results are not being achieved.

The application of the mandatory requirements varies with the degree of conditionality of the particular transfer payment involved. Generally the more conditions attached to the payment the greater is the accountability of the recipient to the Province.

The ministries are to ensure that accountability processes that meet the mandatory requirements of the Directive are in place and are maintained. The Management Board Secretariat is responsible for assisting ministries in the development and maintenance of accountability frameworks.

Implementation of the Directive

To assist ministries in the implementation of the Directive, Management Board Secretariat has established a project group to develop a companion Guideline. The draft Guideline will be reviewed and approved by an inter-ministry advisory group, comprised of representatives from the ministries having large transfer payment programs, the Secretariat, the Ontario Public Service Internal Auditors' Council, and the Ministry of Treasury and Economics. The Guideline is scheduled for completion by September 30, 1988.

On release of the Guideline the ministries are to develop accountability frameworks for each transfer payment program and submit them to the Secretariat for review. This process is scheduled for completion by the end of 1988. During the period January to March 1989 the Secretariat is to review the

accountability frameworks submitted by the ministries and evaluate them using the criteria contained in the Guideline. The Secretariat will then submit the frameworks to the Cabinet for their consideration. It is anticipated that ministry implementation of the accountability frameworks will commence in April 1989.

COMMENTARY

The accountability frameworks, once implemented, will provide the basis for assessing the reliability of the information reported and its relevance to the stated objectives. This will help internal auditors of the ministries and external auditors of the transfer payment recipients to determine their respective audit roles.

Through our ongoing audit activities and communication with Management Board Secretariat, this Office will continue to assess progress made in the development, implementation and auditing of accountability frameworks for transfer payments.

2.3 Legislative Review of the Estimates

The Budget outlines the Government's proposed spending for the year. However, for purposes of legislative scrutiny, additional detail is provided by ministry expenditure Estimates. Expenditure is detailed by program and activity and by accounting classification (e.g. salaries and wages, employee benefits). The Legislature scrutinizes and approves these spending plans of the Government on an annual basis.

In our 1987 Report (section 2.2) we stated that the Estimates process was maligned and ineffective. Our comments were based in part on discussions of the issues related to the Estimates with a number of MPPs from all three parties. The prevalent view expressed was that Estimates in their present form do not provide the Legislature with proper financial accountability.

We reiterated the call for reform of the Estimates process, suggested many times by various legislative committees over the past eight years, and urged the Public Accounts Committee to play a lead role. We also endorsed the recommendation made by successive legislative committees for the establishment of a specialist committee to examine a selected number of Estimates each year. We recommended that the proposed committee coordinate its work with that of the Standing Committee on Public Accounts and the Office of the Provincial Auditor.

ACTION BY THE PUBLIC ACCOUNTS COMMITTEE

The Public Accounts Committee has considered the foregoing recommendations as well as other issues which were raised in our 1987 Report. The Committee tabled a Special Report on the Estimates Process in the House on June 2, 1988. The Special Report recommended:

- the establishment of a Standing Committee on the Estimates to conduct an annual in-depth scrutiny of selected ministry Estimates.

In order to enhance the coordination of the Estimates review with the work of the Public Accounts Committee and thus strengthen the accountability cycle, it was further recommended that three members of the Public Accounts Committee be included in the proposed Estimates Committee. Each political party would be represented and one of the three representatives would chair the new committee.

- the endorsement of the ministry selection process recommended by the Standing Committee on the Legislative Assembly. This Committee had recommended that six sets of Estimates be reviewed in depth each year and that they be chosen in rotation by all three parties. The first ministry to be reviewed would be chosen by the Official Opposition, the second by the Third Party, the third by the Government Party, and the remaining three in the same sequence.

- a procedure be adopted whereby written questions on matters of particular concern would be submitted to ministries not receiving an in-depth review. Under this procedure, the Estimates Committee would review the responses and, at its discretion, call in ministries for further questioning.

- the Estimates Committee establish a schedule for the early completion of the Estimates review.

- the Estimates Committee be given the power to recommend the reallocation of funding within each program.

- the Estimates Committee give high priority to a comprehensive review of the form and content of Estimates information.

- that sufficient research staff be provided to the Estimates Committee and, to further strengthen the accountability cycle, the work of the Estimates Committee research staff be coordinated with the work of the Public Accounts Committee's own staff.

THE STANDING COMMITTEE ON THE LEGISLATIVE ASSEMBLY

A Subcommittee on Standing Orders has proposed amendments to the Standing Orders (rules of the House) which include recommendations for changes to the Estimates review process.

The recommendations, presented in a report to the House Leaders in the spring of 1988, are consistent with those of the Public Accounts Committee. The report also referred to a concern with the time available for the Estimates review. To help alleviate this situation it suggested that "the Treasurer should make every effort to present the budget for the next fiscal year early in the Spring Term, preferably before the beginning of a new fiscal year".

Comments on Government-wide Matters and Special Reviews

CURRENT STATUS OF THE COMMITTEES' RECOMMENDATIONS

The Legislature recessed on June 29, 1988 before the recommendations of the two committees could be addressed. We fully expect that the recommendations will receive appropriate consideration when the Legislature reconvenes in the fall. This expectation is based on the widespread recognition of the ineffectiveness of the Estimates process.

RECENT ESTIMATES' REVIEWS

Estimates review activity for the past three years is summarized in the following table:

	1985/86	1986/87	1987/88
Number of Estimates referred to Committees	38	39	41
Number of Estimates reviewed in whole or in part	22	31	9

Two general elections were held during the three years and no doubt significantly reduced the time available for Estimates review. Nevertheless, given the many duties and responsibilities of members of the Legislature, it is clearly evident that there is not sufficient time on the parliamentary calendar for legislators to effectively scrutinize all of government's proposed expenditures each year.

Some experimentation with a new and more meaningful approach to Estimates is long overdue. The considered recommendations of two Committees of the Legislature, therefore, warrant close attention.

2.4 Observations on Government Advertising and Communications Expenditures

During the year we conducted audits of the management of advertising and communications expenditures at the ministries of Agriculture and Food, Tourism and Recreation, Energy, the Environment, Housing, and at Management Board Secretariat.

Each ministry typically has an advertising agency or agencies to administer the creative and production components of all its advertisements. However, the purchasing of all media space and time in newspapers, radio, television, etc. is coordinated through two agencies called the Government's Agencies of Record.

Total advertising and communications expenditures by these six entities, excluding staff salaries, exceeded $30 million for the 1988 fiscal year.

SUMMARY

SCOPE AND OBJECTIVES

In conducting these audits our objectives included assessments of whether:

- goods and services were acquired with due regard for economy; and

- adequate systems were in place to evaluate the results of advertising projects.

CONCLUSIONS AND FINDINGS

DUE REGARD FOR ECONOMY

Advertising goods and services were acquired with insufficient regard for economy. Many of the expenditures we reviewed did not result in the ministries or the Secretariat receiving value for money. For example:

- **Competitive selection procedures were not followed for sub-contracted goods and services.**
- **Estimates and invoices were not supported with adequate detail.**
- **Excessive costs were incurred.**
- **Questionable expenditures were made.**

PROJECT EVALUATION

Although there was evidence of certain results monitoring we concluded that, generally, adequate systems were lacking to evaluate the results of advertising projects.

- **An energy conservation project was repeated although the results of the first project were not evaluated and the benefits were marginal at best.**
- **The wrong sector was likely targeted in a promotional campaign.**

OTHER MATTERS

- **While advertising agencies were competitively selected documentation was inadequate.**

COMMENTARY

DUE REGARD FOR ECONOMY

Advertising agency fees are determined in part as a percentage of total production costs. Accordingly, ministry controls are critical since an agency has little incentive to keep costs to a minimum.

The following examples are representative of the various inadequacies we found in management control. In some of the examples the amounts involved may, in themselves, appear somewhat minor. However, these instances represent weaknesses that are commonplace and therefore collectively significant.

The Conserving Kingdom, Ministry of Energy

The Conserving Kingdom play was originally developed by the Ministry in the fall of 1984 as an educational tool with the objective of promoting energy awareness and conservation to elementary school children. Ministry staff

calculated that the cost of producing both English and French versions of the play over the following three years totalled approximately $1 million.

In order to be able to provide the program on a longer term basis and at a lower cost, the Ministry decided to produce a film version of the Conserving Kingdom play. As an educational tool geared towards younger children, the primary audience of the film was to be students in grades three to six in the province.

Film Production

Terms of reference were sent to six film production companies in June 1985, four selected by the Ministry and two that subsequently became aware of the project. The film was to last between 25 and 30 minutes and have both an English and French version.

Five proposals ranging in price from $156,000 to $220,000 were received the following month. These were reviewed by a selection committee comprised of staff from the Ministry, educators and TVOntario personnel.

We were informed that three of the five proposals were rejected for technical reasons. Of the remaining two proposals, one was rejected because it was considered unrealistically low at $156,000. The Ministry decided to accept the highest proposal of $220,000, considering it to be "high but realistic". The Ministry entered into a contract with the successful bidder in July 1985 to produce a 28 minute film at a total cost not to exceed $250,000, of which $30,000 was for story rights and contingencies.

The Ministry extended the agreement in February 1986 for the production of three 4 minute vignettes and four 30-second public service announcements at a cost of $85,000 and $80,000 respectively. The cost of the vignettes was further increased by $15,000 in a letter dated March 1986, thus increasing total production costs to $430,000.

A review of the vignettes indicated that significant portions were either excerpts or outtakes from the film. Although some incremental filming did occur, we questioned whether the incremental costs incurred were totally justified. We found no evidence to indicate that the Ministry determined whether the incremental costs paid for the vignettes and public service announcements were reasonable.

Film Distribution and Promotion

In May 1986, the Ontario Film Development Corporation (OFDC) supplied a list of potential distributors for the Conserving Kingdom film of which approximately ten were identified as good prospects. Terms of reference requesting distribution proposals were sent to five companies, four from the OFDC list as well as the company that had produced the film. We understand that the company that produced the film submitted the only proposal for its distribution, amounting to $245,000 over two years.

We reviewed the rating sheets for this proposal and noted that three of the four evaluators rated the proposal low with respect to cost effectiveness. We were informed that this company had no previous distribution experience with films of this type. Given that only one distribution proposal was received, and the cost effectiveness of the proposal was questionable, we felt that the Ministry should have called for additional proposals prior to awarding the contract.

A company, which at the time held an existing contract with the Ministry for the distribution of other films, was not asked to submit a proposal for the distribution of the Conserving Kingdom film. According to Ministry staff, verbal enquiries indicated that the company was not interested in distributing this film.

However, we were advised by this company that they were not contacted. They stated that they would have been pleased to submit a proposal based on the same terms as their existing contract with the Ministry. Under this agreement, the company distributed Ministry films for a fee of $10 per distribution which includes courier charges.

Two-Year Agreement

The Ministry entered into a two-year distribution and promotion agreement commencing July 1986 with the same company that produced the film. **Based on the terms in the agreement, the cost per distribution was approximately $75. We questioned why the Ministry would agree to such costs when the existing contract provided the same service for $10 per distribution.**

Under the agreement the total costs, which included film duplication, were not to exceed a maximum of $245,000 over two years (i.e. $175,000 in year one and $70,000 in year two). By letter dated September 1987 the total contract limit was increased by $50,000 to allow for further distributions in year two.

From a review of distribution invoices and other documentation, as well as discussions with Ministry staff, **it was apparent that invoices were approved for payment without the Ministry checking the actual number of film distributions or expenses incurred.** Information with respect to actual distributions and related costs had to be obtained from the records of the company distributing the film.

The contract guaranteed 600 English and 275 French distributions in year one. In our review of the company's records we found that the actual number of film distributions was approximately 475 in year one and 250 in year two. Accordingly, we questioned why an additional $50,000 was provided for year two distributions.

We also noted that for spring 1987 viewings the distribution company received 107 requests for film copies which were not filled. We were unable to obtain an explanation as to why these orders were not filled.

In reviewing the distribution records of the company, it was apparent that there was little correlation between the actual costs incurred and amounts billed to the

Ministry. In fact, we were informed by the partners of the company that there was never any attempt to invoice the Ministry on the basis of services provided or actual costs incurred by the company.

The company advised us that they were instructed by Ministry staff to bill to the $245,000 maximum of the contract by March 31, 1987, irrespective of the services actually provided or the costs incurred to that date. Apparently the Ministry believed that the number of distributions in year one was much more than it actually was. Accordingly, the Ministry felt that it made sense to pay the two year total, in year one.

The Ministry informed us that it was undertaking a review of the payments made in year one of the agreement and amounts that remain outstanding with respect to year two. The Ministry was hopeful of recovering some of the amounts paid under this agreement.

Additional Matters

The contractor duplicated 225 copies of the Conserving Kingdom film at a cost to the Ministry of approximately $38,600.

For example, while the agreement called for the Ministry to pay $50 for each of the 80 video tapes reproduced, **the Ministry's communications group was able to obtain comparable video reproductions for $17.65 a tape.** Similarly, each of the 105 copies reproduced in 16mm format cost the Ministry $250. **Two telephone quotations obtained by us for 16mm print reproductions of comparable length were $138 and $146 each.**

The amount paid for the promotion of the Conserving Kingdom film in the first year of the agreement was $25,400 out of the total $245,000 paid to the company.

Promotion activity included attendance at a number of film festivals outside of Ontario including the USA and Europe. In fact, three company representatives went to London, England to promote the film in the London Market. Ministry staff appeared to be unaware of the details surrounding these promotions. Furthermore, film promotion was not a part of the original proposal for year one. We were informed by company staff that such work was undertaken in year one since distribution did not require the level of effort previously anticipated. **In any case, the intent of such promotions was unclear since the Ministry's mandate is limited to Ontario.**

In reports prepared for the Ministry, the company identified that its promotional efforts had resulted in potential sales of $1,600 to two other jurisdictions and the airing of the film on TVOntario.

It is interesting to note that airings on TVOntario were confirmed in a proposal preceding the agreement and therefore did not result from this promotional effort. It is also highly unlikely that future revenues will offset the costs of promotion.

Advertisements in Ethnic Publications, Management Board Secretariat

The Government Information/Communication Program was established in 1974 to support Ontario rural and suburban weekly newspapers and ethnic media with paid informational advertising. A large portion of this Program consists of producing and placing advertisements in ethnic media. The cost of ethnic advertisements in the 1988 fiscal year totalled approximately $1.2 million.

At the inception of the Program, the ethnic advertising planning guide consisted of 68 publications. This number increased to 160 by April 1987 and 202 by December 1987. Ethnic advertising currently accounts for approximately 50 per cent of Management Board's total advertising expenditures.

Lack of Circulation Information

The Advertising Review Board, which monitors government-wide advertising policies, has established eligibility guidelines to ensure that government ethnic media purchases would be cost effective. These eligibility guidelines include requirements that:

- upon application, the publisher must provide a printer's invoice showing the number of copies printed as well as a sworn statement of circulation; and

- these documents must be provided annually thereafter for the purpose of performing a circulation/cost analysis.

Because this information was generally not being submitted, circulation/cost analyses could not be performed as suggested in the eligibility guidelines. Additionally, it should be noted that advertising rates are based on stated circulation.

The Board sent a questionnaire to all ethnic publications in December 1987 to solicit circulation statistics, as well as other pertinent information. Second requests were sent to all non-respondents in March 1988. Of the ethnic publications currently on the approved media list, **48 continued to receive Government advertising despite not having provided the information requested. Between May 1987 and May 1988, Government advertising in these 48 publications totalled approximately $240,000.**

In our 1983 audit of the Agency of Record and Government Advertising Expenditures, we reported that 64 of the 133 publications on the approved ethnic media list at that time had not provided information with respect to the number of copies printed or circulated.

We recommended that ethnic publications be advised that they are eligible to receive Ontario Government advertisements only if they comply with the guidelines, and that information with respect to the number of copies printed and circulated is mandatory.

Disproportionate Distribution of Ethnic Advertisements

A review of media invoices for a sample of advertisements indicated that certain ethnic groups had a large number of publications compared to

their proportion of the population, yet advertisements were placed in all of them. Examples are:

Ethnic Group #	Number of Publications with Government Advertisements	Group's Population as a % of Total Ethnic Population	% of Total Media Cost
1	36	5.7	16.7
2	8	.5	5.2
3	8	.8	4.0
4	3	13.0	1.8

We noted that for ethnic group number one, 17 of the 36 publications had not responded to the Board's questionnaire. In addition, since many of these publications serve the greater Metropolitan Toronto Area, we recommended that the current practice of placing advertisements in all of these publications be reviewed.

Publication Media Rates

Advertising rates paid to ethnic publications for Government advertisements are set by the publications.

We reviewed advertising costs, assuming a 600-line advertisement, for the four ethnic groups with the largest number of publications and found that **the average cost of an advertisement per group ranged from $53 to $125 per 1,000 copies circulated.** The $125 average, which was for the same group that had the largest number of publications (#1 in chart), excluded one publication by that group which charged $288 for a 600-line advertisement and had an Ontario circulation of 100.

We acknowledged the need to reach as many people as possible and that all Ontario residents have a right to be informed. However, we recommended that the Board review the use of certain publications which, because of their relatively high rates and low circulations, may not be cost effective. Alternatively, we suggested that it may be more economical to negotiate ethnic media rates to obtain a more consistent and competitive cost relative to circulation.

Ministry of Agriculture and Food

Retail Merchandising

The Ministry hired an advertising agency to run two in-store promotions of Ontario produce. The agreements stated that fees for services should not exceed $150,000 and $200,000 for 1987 and 1988 respectively, and "shall be based upon the actual hours worked". However:

- **the method of calculation and the total costs of producing promotional materials were not defined;**

- **hourly rates at which services were to be billed to the Ministry were not stated; and**

- **the agreements did not provide for a competitive selection process for sub-contracted goods and services to ensure that they were acquired at reasonable rates.**

With respect to the 1987 agreement the agency was paid exactly $150,000, the maximum allowed under the agreement. The agency's invoices provided no details with respect to the amounts charged. Without additional details, it was not possible for Ministry staff to determine whether the amounts paid were reasonable.

An analysis prepared by the agency indicated that their costs, including the normal 15 per cent commission earned by the agency on materials produced, totalled $137,500. **We were advised that the additional $12,500 billed to the Ministry represented "service fees". We were unable to ascertain the basis on which this amount was determined or the reasonableness of the amount charged.**

Agency services and related payments for 1988 were not completed at the time of our audit. However, the 1988 agreement provided for a maximum progress payment of $50,000 to be made by March 31, 1988. We noted that the Ministry was invoiced and approved a payment of $75,000 at that time.

We were advised by Ministry staff that approval of this increase was based on the additional work performed by the agency. However, our review of the agency's production records to April 29, 1988 indicated that the cost of materials produced, including commissions, was only $11,200.

Foodservice Binder

The Ministry hired an agency to produce 2,000 foodservice binders for distribution to foodservice operators (i.e. restaurants and cafeterias). At the time of our audit the binders consisted of a guide describing when Ontario produce is available as well as inserts for strawberries, asparagus, carrots, onions and green house cucumbers. The total cost for the five inserts was approximately $75,000.

The inserts were similar in format and consisted primarily of a short history of the fruit or vegetable, buying tips, storage information, cost per serving based on a range of prices, and nutritional information.

Our review of invoices and the agency's production records indicated that :

- **competitive tenders for subcontracted work over $400 were generally not obtained, contrary to the requirements of an interim agreement;**

- **approximately one half of total costs were charges based on hours and rates. Neither Ministry nor agency staff could provide details justifying amounts billed and paid; and**

- **a sample of six items billed at hourly rates exceeded amounts billable under the interim agreement by $5,400.**

We recommended that whenever possible the Ministry consider bringing some functions in house, particularly "product research", since this information should be easily obtained. We noted that research costs for the strawberry and asparagus inserts alone totalled $7,600.

Ministry of Tourism and Recreation

Creative Service Costs

We found that production cost estimates prepared by the Ministry's creative agency lacked sufficient detail to permit an effective review of proposed costs. While costs were sometimes segregated by components of the production process, they always lacked details with respect to the number of hours required, rates to be charged per hour, unit costs and overtime charges, if any. Many estimates indicated only the total project cost.

Actual invoices also lacked detailed information and often consisted only of a percentage progress payment based on the prior estimate. Where costs were itemized by components of production, the amounts were not detailed and often were not consistent with the groupings in the production estimate. **Without this supporting information, it was not possible for the Ministry to determine whether advertisements were produced economically.**

Even in those instances where it was possible to make comparisons, there was no evidence that amounts invoiced were reviewed for reasonableness and approved prior to payment. The following figures with regard to newspaper advertisements serve to illustrate:

	Estimated Cost $	Invoiced Cost $
Assembly	1,300	7,600
Typesetting	4,800	7,800
Photography	1,470	8,200

We were also advised that overtime charges were frequently incurred and billed to the Ministry, particularly during the first year of the agreement. However, neither the agency nor its suppliers' invoices specifically identified such charges. **Consequently, neither the Ministry nor ourselves were able to determine the extent of overtime charges and whether they were justified and reasonable in the circumstances.**

We recommended that the Ministry request detailed production cost estimates including itemization of the number of hours to be charged, rates per hour, unit prices and overtime charges, if any. Invoices should also be detailed and costs should be grouped in the same categories as in the estimates. Variances between estimated and actual costs should be fully investigated and explained, prior to approval for payment.

Questionable Television Media Expenditures

Television advertising is purchased by the Ministry to achieve a pre-determined number of gross rating points (GRP). GRP's are a broadcast industry measure of the reach of commercials and the frequency of exposure to specific target audiences. We were informed that where the amounts spent on broadcast advertising and GRP achievement are within ten per cent of what was planned, it is considered acceptable by industry standards.

The Achievement Report for the Ministry's 1987 Ontario spring and summer television campaign indicated that over 25 per cent of the markets were both overachieved and overspent by more than 10 per cent.

Therefore, objectives could have been met without spending the total budgeted amount. We were informed that after the initial purchase of advertising, the Government's Agency of Record found that it had not spent the amount budgeted. The surplus funds were used to increase the expenditures in three markets without consulting either the Ministry or its advertising agency. As a result:

- actual expenditures in these three markets totalled $189,100 which was $38,900 more than planned; and

- actual GRP's achieved exceeded planned by 24 per cent.

We recommended that the Agency of Record consult both the Ministry and its advertising agency before departing from the approved advertising plan.

Ministry of Housing

We determined from a review of the creative agency's cost records that the amounts paid to suppliers were correctly passed on to the Ministry. However, the agency's suppliers' invoices lacked detailed information with respect to items such as quantities purchased, unit prices or overtime charges, if any.

Agency staff were uncertain as to the details regarding specific charges or why costs varied significantly between advertisements. However, we were advised by both the agency and Ministry staff that work was generally performed on a rush basis. Therefore it was not unusual for additional charges to be made in excess of the normal rates, because the work was often performed overnight or on weekends. **Given the recurring nature of some advertisements the necessity for producing them under rush conditions was not clear.** This was particularly true for the Non-Profit Housing Program.

We were informed by agency staff that the standard costs for producing advertisements of the type we reviewed, assuming a normal production period of approximately five working days, would be between $8,000 and $10,000 including release materials and shipping. Actual costs for the advertisements reviewed were:

Advertisement	Rent Review	Non-Profit Housing
	$	$
# 1	37,900 *	10,200
2	16,000	21,300 *
3	10,500	12,900
4	17,500	20,800 *
5	16,500	

* These advertisements were produced and shipped twice. After the advertisement was initially produced and released to the media, late changes were made to the text. **This necessitated re-producing and re-releasing the advertisements at considerable additional cost.**

Ministry of the Environment

Our review of informational newspaper advertisements indicated that the Ministry incurred approximately $21,000 in media costs for placing French text advertisements side by side with equivalent English text advertisements in English newspapers. **One would normally expect that people purchasing newspapers printed in English would not need the same Government advertisements also printed in French.**

We recommended that the Ministry review its current practice of placing French text advertisements in English newspapers.

Our review also indicated that two other advertisements were produced by the Ministry at a cost of $1,900 and $7,200 respectively but were never utilized. We were informed that one of these advertisements did not receive Ministry approval for publication after it had been produced, while the other was produced before it was determined that funds were not available to run the advertisement.

We recommended that procedures be improved to eliminate similar non-productive advertisements in the future.

PROJECT EVALUATION

Ministry of Energy

The R-2000 program promoting the construction of energy efficient housing units was originally developed by the federal government about 1980. Ministry staff estimated that provincial R-2000 expenditures had amounted to approximately $3 million, consisting of such items as builders' training, educational television and print materials, open houses and other promotions.

We were advised by Ministry staff that even though energy conservation is no longer a top priority, R-2000 is still being promoted but stresses other benefits such as improved air quality, quietness and the use of superior building materials and standards. The Ministry estimated that approximately 900 R-2000 housing

units had been built in Ontario up to the end of 1987 and that 150 or 17 per cent of those were influenced by the Ministry's energy policies.

Production and Distribution Agreement

The Ministry entered into an agreement in January 1986 with a national distributor of a home design magazine. The agreement required the magazine to produce and distribute a plan book containing 40 R-2000 home illustrations, as well as to produce and offer for sale architectural working drawings of each design. The cost to the Ministry was $130,000.

In January 1987 a similar agreement was entered into with the magazine for another plan book, containing an additional 40 home illustrations, at a cost to the Ministry of $125,000.

The primary target of the Ministry in promoting R-2000 construction should be potential homebuilders in Ontario. However, Ministry staff did not know either the total distribution of the magazine and the home plan insert, or the percentage of the total distributed in Ontario. **Information supplied to the Canadian Home Builders Association two months prior to the original contract indicated that 60 per cent of the magazine's distribution was outside of Ontario.** We therefore questioned the justification for this project since only 40 per cent of the plan books were distributed inside Ontario.

The contract did not require a certification of the actual distribution of the plan book or the number of R-2000 plans ordered and homes built to those specifications. Consequently, there was no system in place to evaluate the results achieved.

Ministry staff estimated that 62 to 75 homes were built to R-2000 specifications in Ontario as a result of the first plan book. Since there was little demand for the R-2000 plans, we questioned the decision to proceed with a second plan book in the following year. At the very least, the Ministry should have determined how many plans were purchased in Ontario and surveyed the Ontario purchasers to ascertain whether a second round of financing this project was justified.

Ministry of Agriculture and Food

Special Promotions - "Spring Preview"

The Ministry had commissioned its agency to produce 2,000 spring preview promotional kits for the foodservice sector which consisted of a fact sheet and suggested recipes, restaurant table cards and wall posters for Ontario produce. Total cost was approximately $40,000.

Research undertaken on behalf of the Ministry indicated that:

- foodservice operators purchase produce based on quality and price, not product origin; and

- many foodservice operators are regularly supplied by one wholesaler and do not get involved in the actual purchase decision. In many cases they are not aware of the origin of their produce.

Therefore, the effectiveness of these binders being distributed to end users rather than suppliers is questionable.

Up to the end of April 1988, only 264 of the 2,000 spring preview kits produced had been distributed to 42 foodservice organizations, primarily as samples. Therefore, it was unlikely that many of the remaining 1,736 kits were distributed in time to be an effective "spring" promotion.

We contacted 13 organizations that had received 160 of the 264 kits distributed. The following is a summary of their comments:

- three did not recall the material;
- four received and reviewed the material but did not use it for various reasons;
- four recalled the material but were not sure whether it was used; and
- two informed us that they used at least one of the items in the kit.

Although this analysis may not be conclusive as to the effectiveness of the promotion, it certainly suggests that the Ministry should carefully review the results achieved.

OTHER MATTERS

Management Board Secretariat

Advertising Agency Selection Procedures

The Advertising Review Board, a central administrative body which reports to Management Board of Cabinet, monitors government-wide advertising policies and is responsible for reviewing ministry advertising materials with respect to overall quality standards and communication objectives.

The Directives manual requires that the Advertising Review Board manage the acquisition of advertising and creative communication for ministries and Government agencies where these services exceed $500,000 over three years, including the Agency of Record. The Board may also provide advice or assistance to ministries and agencies acquiring services of less than $500,000.

Every agency indicating an interest in the contract is given a copy of the qualifying criteria and a capability questionnaire. Agencies who return the questionnaire form the long list of potential vendors. This list is then reduced to a shorter list of finalists, after the five member selection panel analyzes the completed questionnaires using established selection criteria as a guide.

However, in five of the six competitions we reviewed, including the Agency of Record, there was no documentation as to why some agencies made the short list while others did not. We recommended that the basis for selecting agencies for the short list be documented and retained, including analyses indicating criteria met and criteria not met for each agency.

To make the selection process as verifiable as possible, the basis of awarding ratings should be documented. We found that this was not being done. This is particularly essential when there is a wide variance in ratings between selection panel members.

In selecting an agency remuneration was generally not a criterion. However, since remuneration is one of the criteria in determining value for money spent, it should also be one of the criteria in selecting an advertising agency. This is particularly important where agencies are remunerated on a basis other than the normal agency commissions (i.e. hourly rates).

Discounts Offered for Early Payments

Standard industry practice is to pass along the discount of two per cent on applicable media invoices paid within ten days of the invoice date. Clearly, it is sound business practice for the ministries to pay the invoices within the ten day period.

In 1985 ministries earned approximately 95 per cent of the $141,000 in discounts available through the Agency of Record. For the six months ending September 1987 only 20 per cent of the $88,000 in discounts available was earned. **Discounts earned after September 1987 may decrease even further, since the Agency of Record no longer identifies early payment discounts offered on print media invoices.**

We recommended that the Agency of Record clearly indicate on invoices where early payment discounts are offered. We also recommended that ministries be reminded to pay invoices offering early payment discounts within the time required to earn such discounts.

RESPONSES

The Ministries and Secretariat generally accepted the recommendations made and indicated that improvements were either planned or were already underway. The following are some extracts from responses received:

DUE REGARD FOR ECONOMY

The Conserving Kingdom, Ministry of Energy

" . . . *the Ministry audited (Conserving Kingdom) film production records and accounts. Serious discrepancies were discovered. After consulting with the Ministry's legal staff, negotiations were conducted to adjust all outstanding invoices with the contractor to reflect the audit results. Since all the paid invoices had been endorsed by program officers, they were considered to be non-negotiable. The negotiations resulted in reduction of the final invoice to the*

contractor by $5,000. However, all films, print materials, and master copies on hand were retrieved from the contractor. The Ministry has arranged for TV Ontario to assume the distribution of the film and has delivered all the required materials to meet the outstanding training demands to TVO's warehouse."

Advertisements in Ethnic Publications, Management Board Secretariat

"Action has been taken on the recommendation . . . A final notice to 39 ethnic publications was sent by registered mail on October 7, with a return deadline of October 31. These publications will receive no further government advertising if they do not return the required information to the A.R.B. by the date specified.

"Ethnic newspapers cannot be measured in terms of cost efficiency on the same basis as English language newspapers, whose advertising costs per thousand are proportionately lower due to their mass circulation. It is necessary in the case of ethnic communications to use all publications available to a language group, in order to effectively reach a majority of the people in that group."

Ministry of Housing

"Except for current Federal-Provincial non-profit initiatives, none of the ads is of a recurring nature. The message, the audience, the approach are all tailored to meet specific program needs.

"Even in the case of the non-profit program, new approaches were being developed. These were based on federal-provincial negotiations that resulted in a boost to the federal-provincial program to a level of 6,700 units per year.

"In addition, the Province was exploring new, provincial only, non-profit initiatives which further complicated what our message would be and how we would get that message out."

With regard to re-producing and re-releasing advertisements the Ministry advised us that there were exceptional circumstances which required these unusual actions.

Ministry of the Environment

"In accordance with Cabinet Office and Office of Francophone Affairs guidelines, the Ministry now places french advertisements only in french language newspapers and english advertisements in english newspapers. If there are no french language media available in the designated area, the english copy includes a french sentence indicating where the reader may obtain information in french on the subject of the advertisement."

Increasing Inspection Audit Activity

PROJECT EVALUATION

Ministry of Energy

"We still think that the payment made to the national distributor is . . . in support of a worthwhile private sector initiative to increase consumer awareness of the R-2000 concept."

OTHER MATTERS

Management Board Secretariat

Advertising Agency Selection Procedures

"The selection of advertising agencies is based on creative and service capability demonstrated by the companies competing for a contract. In most cases agency remuneration structures are not a factor. Most agencies work on the industry standard of 15 per cent commission allowed by the media. Value for money is achieved by careful planning and control of all costs by both agencies and their client ministries. One notable exception to this is the competition to select an Agency-of-Record. The criterion for the A.O.R. selection is the agency's charge for providing the service. The lowest qualified bidder was awarded the contract."

2.5 Increasing Inspection Audit Activity

The current Audit Act came into effect in April 1978 and gave the Provincial Auditor the authority to conduct inspection audits of transfer payment recipients. The granting of this authority effectively recognized the significance of transfer payments in government. In Ontario they represent over 70 per cent of provincial expenditures.

Given the multiplicity of transfer payment recipients, it was not feasible, nor was it intended, that the Provincial Auditor undertake inspection audits on a broad scale. Instead it was left to the discretion of the Provincial Auditor to determine an appropriate level of activity.

Initially the Provincial Auditor conducted inspection audits only on an exception basis where, for example, evidence obtained in ongoing ministry and agency audits indicated that such audits were advisable. However, consistent with the generally increasing emphasis on government accountability, in recent years this Office has expanded audit activity to more specifically address the major recipients of transfer payments.

In 1984, in response to concerns expressed by the Public Accounts Committee, the Office undertook a special review of a College of Applied Arts and Technology. This review, while more extensive, included all of the elements of an inspection audit. Our findings were reported directly to the Committee. Subsequently, we conducted inspection audits at two more Colleges. The results were summarized in our 1985 and 1986 Annual Reports.

Comments on Government-wide Matters and Special Reviews

In 1987 we extended our inspection audit activity to the university community. The more significant results of our first university audit are contained in the following section of this Report.

We are planning to conduct inspection audits of two more universities and to extend our audit coverage to other major recipients of transfer payments such as hospitals.

2.6 Inspection Audit, Trent University, Ministry of Colleges and Universities

With a staff of up to 1,000, Trent University offers degree and diploma courses to more than 3,000 full-time and 2,000 part-time students. During the 1988 fiscal year, the University received transfer payments amounting to approximately $17.5 million (1987 - $16 million) from the Ministry of Colleges and Universities.

SUMMARY

SCOPE AND OBJECTIVE

Our audit objective was to assess the adequacy of the University's accounting records and related procedures. Specifically, we examined whether:

- enrolment data reported to the Ministry for funding purposes were accurate and complied with guidelines established by the Ministry and by the University;
- assets acquired were properly controlled and accounted for;
- controls over payroll and expenditures incurred by the University were adequate, and that such expenditures were made in accordance with the policies and procedures established by the Board of Governors.

By agreement with the University, our audit was restricted to expenditures funded by provincial grants. Any expenditures paid for through other funding sources such as federal grants, special donations or ancillary revenues (bookstore, student residences, etc.) were specifically excluded.

CONCLUSIONS AND FINDINGS

While some aspects were handled well, we concluded that, on the whole, the University's accounting records and related procedures were less than satisfactory.

ENROLMENT REPORTING

We calculated that since 1982, Trent has received approximately $11 million which might otherwise have been granted to other universities. This $11 million resulted from the University's use of enrolment reporting criteria which lacked evidence of required Ministry approval.

Inspection Audit, Trent University

As a result of events subsequent to our audit, including the granting of retroactive approval by the Ministry, both Trent and the Ministry have concluded that no overpayment has actually occurred.

In addition, the University has failed to adhere to its own established enrolment criteria, resulting in overstatements of reported enrolment for funding purposes.

PLANT ASSETS

Internal controls over plant assets were not yet adequate. Specifically:

- **No thorough check had been done in the last 10 years to ensure that Library books and serials, reportedly worth $6.7 million, were not missing.**
- **The University had only recently begun to prepare an inventory of furniture and equipment. Only $2.2 million of the $9.8 million worth of the reported assets had so far been identified and listed.**

OPERATING EXPENDITURES

We were generally satisfied that payment procedures for goods and services followed sound business practices and that controls over payroll were satisfactory. However, we were concerned that an unreasonably generous compensation package was granted to a former senior official of the University with no evidence of approval by the entire Board of Governors.

COMMENTARY

Background

Trent University was incorporated in 1963 under the University Act. The University registers students not only from Ontario, but from across Canada and other countries as well. Its degree programs include Arts, Science, Administrative Studies and Education. Canadian Studies, Native Management and Economic Development, and Native Studies are Trent's diploma programs.

The University employs up to 1,000 staff of which about 400 are hourly and 600 are salaried employees. Of the salaried employees, 270 are academic staff and 330 are support and administrative staff. Most hourly employees are support staff.

Total revenue of the University for the 1987 fiscal year was $32.6 million. Provincial grants provided $16.4 million of the revenue (50.3 per cent) with $13.6 million based on student enrolment. Expenditures for the 1987 fiscal year totalled $32 million, including about $8 million for ancillary operations.

ENROLMENT REPORTING

Overview

The enrolment data gathered from all Ontario universities is a key criterion utilized by the Ontario Council on University Affairs in assessing the financial

needs of these institutions and in arriving at the recommendation for the Ministry's support of their operations (excluding capital and special grants).

Provincial funding to all universities is a fixed aggregate amount for a particular year. Each year, the Minister of Colleges and Universities apportions these funds to institutions via an enrolment-based operating formula. The apportionment of operating grants to particular universities is based on submitted enrolment reports from previous years. The Ministry issues the Ontario Operating Formula Manual to provide the universities with guidelines for completing the enrolment reports. Guidance is also given to the universities' external auditing firms who are required to express an opinion to the Ministry on the fairness of reported enrolment figures.

The enrolment funding unit reported by Ontario universities is called a Basic Income Unit (BIU) which represents a weighted value for full-time students. Various weights are used depending on the program of study. For example, an Honours Science student is weighted twice as much as a General Science student, and a third more than an Honours Arts student.

Annually, the Ministry determines a value for each Unit. That value ($ 4,400 for the 1987 fiscal year), multiplied by the Units calculated by the formula and reduced by the fees to be collected from students (formula fees), determines the funding level for the university. In the 1987 fiscal year, this complex formula included up to nine previous years of Unit data. Accordingly, should Units be misstated in a given year, future funding would be affected.

Grants Obtained without Evidence of Ministry Approval

As previously indicated, universities receive a higher level of funding for those students progressing towards an Honours degree. In those instances where a differentiation is not made between the General and Honours level in Arts and Science, the Ontario Operating Formula Manual states :

> " All students in undifferentiated programs in Arts & Science not assigned a special weight should be treated as if they were in the general course, except in the case of fourth year students, who are readily acknowledged as being in the Honours category, and except for students in lower years who by virtue of academic standing or other appropriate criteria embodied in university regulations, may reasonably be categorized as Honours students. Criteria for such differentiation, insofar as they affect the calculation of formula claim, are subject to approval by the Ministry". (emphasis provided by Ministry)

The Ministry approval requirement was a contentious issue throughout the audit. Our report on the audit commented extensively on the matter, as did responses received from both the University and the Ministry. These comments are summarized as follows:

> Trent made significant changes to its criteria for placing students in the Honours category in 1968 and in 1982. The first change had the effect of increasing the percentage of Honour students from about 20 per cent to 50 per cent of the beyond-first-year Arts and Science students. The second change increased this percentage to approximately 70 per cent.

The substantial impact of these changes on the amount of funding received by Trent from the Ministry prompted us to seek evidence that the relevant criteria had been approved by the Ministry as required under the Ontario Operating Formula Manual. Numerous requests were made to both Trent and Ministry officials during the course of the audit but evidence of approval could not be found.

As a result we concluded that Trent was being funded on the basis of criteria which had not received Ministry approval. To illustrate the funding impact of the situation, we calculated that, for the five-year period 1982/83 to 1986/87, **Trent had received approximately $11 million that might otherwise have been granted to other universities.**

Subsequent to the completion of the audit, Trent located correspondence which it felt established a clear case of Ministry approval of its enrolment reporting criteria from 1968 to the present. The Ministry was asked to provide written confirmation.

The Ministry accepted the University's position with regard to the period 1968 - 1981. (While in our view the correspondence on which acceptance was based was less than conclusive, we believe the decision of the Ministry was reasonable under the circumstances). However, the Ministry did not agree that it had approved the changes on criteria introduced in 1982. The Ministry noted that these criteria were not inconsistent with those previously approved. Therefore, the Ministry was prepared to consider a request by Trent for retroactive approval.

Trent made this request and received retroactive approval from the Ministry in a letter dated August 19, 1988. This letter also cautioned the University that "approval of future revisions to these criteria should be received . . . prior to reporting enrolment based on the changes".

Based on the foregoing, **both the Ministry and the University have concluded that there has been, in fact, no overpayment of operating grants to Trent.**

Non-Compliance with University Internal Guidelines

We also assessed whether the University accurately followed its own internal guidelines for enrolment reporting. A sample of 90 Basic Income Units, comprising 195 student files, was statistically selected for testing. We found 18 errors including:

- Two students were reported as Honours students despite having less than a 65 percent academic average.

- In five cases, courses were dropped prior to the cut-off dates for Ministry funding, yet they were still claimed for Ministry funding.

- Eight part-time students were reported as Honours students when they clearly indicated that they were not even taking the courses for a degree but rather for general interest.

- One student who was reported as an Honour Science student had not only failed to obtain credit for the required number of courses but also was taking mostly Arts courses.

The errors found represented an overstatement of approximately five per cent of BIUs. This was statistically significant and beyond the level established as acceptable in our sample design. Consequently, **we concluded that the University did not have an adequate level of compliance with its internal guidelines, resulting in a significant overstatement of reported Basic Income Units.**

Ineligible Students and Courses Included

The Ministry prescribes dates throughout the year at which universities are to count enrolment for funding. In fiscal 1986/87, the count dates during the regular academic year were November 1, 1986, and February 1, 1987. Programs or courses withdrawn from prior to one of these dates were ineligible for funding.

We performed further cut-off testing by selecting an additional 55 files of students who were reported to have withdrawn from courses or the University within one week of a count date.

- **Our test of 25 students who had withdrawn from the University showed that two students had not indicated the date of their withdrawals. Of the remaining 23 students who were reported by the University as having withdrawn after a count date, 18 had actually signed their withdrawal forms before that date. Thus, these 18 students were incorrectly claimed for formula support.**

- **Our test of 30 students who had withdrawn from courses showed that one student had not indicated the date he withdrew. Of the remaining 29 students who were reported to have withdrawn after a count date, 21 had actually signed their withdrawal form before that date. We were informed by the University that the student who did not indicate the date of his withdrawal had also withdrawn before the count date.**

Most of these errors were the result of applying a questionable University policy. The Registrar's Office informed us that the date stamped on the withdrawal form was the only date used for enrolment reporting cut-off purposes. They did not accept the dates of withdrawal indicated by the students. Nevertheless, **University officials agreed that in 18 of the 40 discrepancies we noted above, they had received the withdrawal documentation before the count dates.**

Our concern with the use of the confirmation stamp date is that there is no incentive and, in fact, there is a penalty for applying the stamp promptly

on receipt of the withdrawal request. Registrar staff admitted that this was not a priority during the busy cut-off period. In our sample, the difference in dates was sometimes more than two weeks.

It is not possible to quantify the aggregate error expected from these discrepancies as the total number of student withdrawals in any academic year could not be determined from current university records. However, **based on the very high error rate found in the sample and the typical volume of activity prevalent around Ministry count dates, the likely error would be significant.**

PLANT ASSETS

Overview

For the year ended April 30, 1987, plant assets were reported in the University's financial statements at an estimated cost of $52 million. Consistent with Canadian university accounting practices, Trent does not record depreciation on plant assets. The asset components were:

	($ millions)
Land, Building and Improvements	35.5
Furniture and Equipment	9.8
Library Books and Serials	6.7
	52.0

Our audit primarily focused on the latter two categories of plant assets because they are moveable and more susceptible to loss or misappropriation. However, some major acquisitions or dispositions of land and buildings were also reviewed.

Incomplete Asset Records

In 1985, in order to bring its financial reporting in line with other universities, Trent increased the amounts recorded for "Furniture and Equipment" and "Library Books and Serials" in its financial statements by $4 million and $4.5 million, respectively. These amounts approximated the cost of assets that were paid for through the operating , ancillary and trust funds of the University. Previously, only assets paid for through the capital fund had been recorded. Although we could not substantiate the reasonableness of these amounts, Trent's external auditors were satisfied that these estimates were conservative.

However, since 1985, accounting records at the University showed no deletions from either the "Furniture and Equipment"or the "Library Books and Serials" balances in the financial statements. We noted that in recent years, equipment assets such as telephones, a human skeleton and a $2,000 microscope were reportedly stolen or missing. However, these items had yet to be removed from the balance of "Furniture and Equipment".

Furthermore, while books and serials purchased after 1985 were recorded as assets, there has been no reduction made for any books lost since that time. According to the University Librarian, a thorough check had not been made in the last 10 years to ensure that no catalogued books were missing. We were informed that a partial count of books (covering three alphabetic letters) was performed in 1984 with extremely poor results, in that numerous books could not be located. The University did not keep records of this count.

We found no annual or periodic counts of "Furniture and Equipment" assets had ever been taken, primarily because no up-to-date listing of such assets had ever been prepared for comparison. However, in June 1987, University management began the task of establishing a "Furniture and Equipment" inventory. The listing was to include all assets valued at over $1,000 and any items considered "attractive" or susceptible to loss. Management had insufficient time to complete the inventory or verify the existence of the listed assets before the commencement of our audit in September 1987. At that time only $2.2 million of the reported $9.8 million had been accounted for.

With respect to Library books, we understand that the University will be acquiring a computerized inventory system as well as a bar-coding system to facilitate future inventory counts.

OPERATING EXPENDITURES

Overview

Expenditures for Trent University for the year ended April 30, 1987, were $24 million, including $18.3 million for wages and benefits. This did not include ancillary operations.

Effective Payment and Payroll Practices

Based on our examination, we were satisfied that the University established and followed appropriate payment and payroll policies and procedures. Specifically:

- All of the payments examined were made before their due dates, thus avoiding late payment charges. Furthermore, advantage was taken of sales tax exemptions and discount offers, where applicable.
- Invoices and cheque requisitions presented for payment generally bore evidence of receipt of goods.
- Adequate supervisory review and approval existed over the payroll function.
- Payments made to University employees, with respect to wages and salaries, were accurately calculated and approved.

However, we did note two areas where purchasing policies should be clarified. Firstly, purchase orders were frequently prepared after the receipt of goods, services and/or invoices. Secondly, dollar limits had not been established governing the use of tendering procedures.

Questionable Backdated Compensation Contract

As part of our review of payroll transactions we examined the procedures for awarding compensation packages to senior officials. In the case of one senior official who completed an initial five-year term, the University renewed the employment contract in June 1985, for an additional five-year period, retroactively commencing January 1, 1985. Three months later, in September 1985, this official indicated his intention to resign, effective June 30, 1987, stating a personal interest in research and other activities as the reasons for resigning.

We noted that subsequent to the resignation announcement, the official was granted a revised renewal contract, still backdated to January 1, 1985. **While the revised contract was signed by the Chairman and another member of the Board of Governors, there was no Board minute or Executive Committee minute indicating that this revised contract had been formally discussed and approved.**

The revised document, covering a seven-year period from January 1985, to December 1991, included the following provisions, some of which were carried over from the original renewal contract:

- **After the resignation date of June 30, 1987, the official would perform unspecified consultative duties to December 31, 1987, receiving full salary and benefits totalling $60,000 during the six-month period.**

- **Subsequent to the above six-month period, commencing January 1988, the official would be granted a paid leave of absence of two years, receiving full salary and benefits totalling $250,000.**

- **Subsequent to the two-year leave of absence, the official would be granted an additional two years of sabbatical leave (one year of which was earned under the first term contract), entitling him to full salary and benefits totalling another $250,000.**

- **Payments of both principal and interest will be undertaken for five years to eliminate a $50,000 mortgage obligation on the official's home.**

- Finally, an additional option of a tenured academic staff position was granted to the official at the end of either the above mentioned leave of absence or sabbatical leave. **The compensation would be at the maximum salary payable to a professor at the University, currently $70,000 per annum.** Should the official decide not to return to the University, an early retirement arrangement would be made.

Comments on Government-wide Matters and Special Reviews

We feel that the terms and conditions contained in the compensation contract were exceptionally generous for an institution supported by public funds.

Even if the contract was intended to be a termination package, the magnitude of the settlement was questionable. A recent review of Canadian court cases showed that no senior employee has ever been awarded a court settlement of more than two years salary, even in cases of wrongful dismissal.

RESPONSE

The response from the Board of Governors of Trent University included the following comments.

ENROLMENT REPORTING

The substance of the University's response to the issue of Ministry approval of enrolment reporting criteria has been included in the preceding Commentary.

Other Enrolment Issues

"We have reviewed in some detail the alleged errors reported under the following headings and do not find these significant:

- *'Non-compliance with University Internal Guidelines' (we stipulate that there were 8 errors - not 18 - among the 195 files in the sample; the errors amounted to 2.4 BIUs out of 90 BIUs in the sample, yielding an error rate of less than 3%.)*
- *'Ineligible Students and Courses Included' (we accept that there were 16 errors around the count date, yielding a total overstatement of 2.7 BIUs, or 0.05% of reported BIUs)."*

PLANT ASSETS

Incomplete Asset Records

"It is incorrect that accounting records since 1985 contain no deletions in the 'furniture and equipment' balance in the financial statements: reductions for trade-ins ($5,641) and the sale of a vehicle ($2,000) were made.

"In 1987 the University established a policy of capitalizing and decapitalizing) items valued at $1,000 or more. In 1985-86 and 1986-87 there was only one item (valued at $2,000) that would have resulted in a reduction under this guideline.

"The Auditor was correct that no allowance has been made for lost and stolen books and serials since 1985. In North America university accounting records rarely take into account lost, stolen or obsolete items because, unlike in the private sector, there is no tax advantage and the practice is not, therefore, cost effective. The 1987-88 financial statements will reflect such an allowance, and when the library automation project is fully implemented, the allowance will become more precise.

Inspection Audit, Trent University

" . . .The inventory listing (of furniture and equipment) which will allow for periodic inventory counts is now available and will be audited at the end of 1988-89. "

OPERATING EXPENDITURES

Effective Payment and Payroll Practices

"The auditor notes in his report that although the central purchasing office was sometimes bypassed, the University had good payment practices that were not affected.

" . . . Steps have already been taken to enforce the requirements of the purchasing policy where they are being bypassed inappropriately.

"The University agrees that the lack of specified dollar limits for items requiring verbal quotes, written quotes or calls for tender in the purchasing policy is a shortcoming currently under review. "

Questionable Backdated Compensation Contract

"The chronology in the Provincial Auditor's report is incorrect. The senior official in question was reappointed by the Board of Governors for a second five year term in 1983, well before the end of the first term. The renewal contract was finalized after the beginning of the second term and the exit contract was signed before the official announced his resignation.

"Responsibility for the determination of terms and conditions of employment for officers at this level of seniority had been delegated by the Board of Governors to a committee of three consisting of the Chairman of the Board, the Vice-Chairman of the Board and and the Chairman of the Executive Committee of the Board. Two of these three members signed the exit contract, approving the terms on behalf of the Board of Governors. The practice of delegating this authority was reviewed and reconfirmed by the Board of Governors following receipt of the first draft of the Provincial Auditor's report earlier this year.

"In 1985 the Board of Governors and the senior official in question mutually agreed that it would be in the best interests of the University if the official left administrative office at the end of June 1987. To permit a smooth transition it was further agreed that there would be a six month period of consultancy beginning July 1, 1987 and that the terms of the renewal contract would be honoured by the University. Some observations and clarification of the terms of the exit contract follows:

- *The official did perform consultative duties at the request of the University in the period June 30 to December 31, 1987.*

- *The paid leave between January 1988 and December 1989 represented the University's obligation to fulfill the terms of the contract for the duration of the five-year renewal.*

- *As stated in the Auditor's report one year of sabbatical leave had been 'earned' under the first term contract. Likewise, since the official served from January 1, 1985 until December 31, 1987, three-fifths (or eight months) of the second sabbatical year was 'earned' under the renewal and exit contracts.*

- *The $50,000 mortgage was arranged by the University when the official came to Trent so that a house suitable for university functions could be purchased. Retirement of the mortgage was granted in lieu of a housing allowance during the period in which the individual held administrative office.*

- *The individual in question had held tenure elsewhere since the late 1950s and was a senior tenured professor at another university earning more than Trent's maximum professorial salary in 1980 when he came to Trent. A tenured professorial appointment was granted, quite separate from the contractually limited administrative post in question, in 1980. Once granted, tenure can only be removed for cause and post-contractual academic tenure was not an element of the contracts limiting the administrative appointment. Early retirement options are available to all senior faculty at Trent.*

"Because the official in question served in an administrative capacity for five years under the first contract and for three of the originally intended five years under the renewal contract, the settlement provided in the exit contract could be characterized as amounting in total to compensation for two years (of leave) and four months (of 'unearned' sabbatical). Even though the comparison is not valid, it should be noted that this is only four months more than the court-awarded settlements alluded to by the Provincial Auditor and, of course, there were no court costs."

CHAPTER 3
COMMENTS ON MINISTRY AUDITS

3.1 Introduction

The comments contained in this segment of the Report pertain to audit observations and recommendations resulting from ongoing ministry audits. The audits on which the comments are based were completed since the date of our last Report and are listed in Exhibit 2.

3.2 Escalating Costs and Delayed Implementation, Comprehensive Income Maintenance System, Ministry of Community and Social Services

The Ministry is currently implementing an integrated computer system, called the Comprehensive Income Maintenance System (System), as part of its ongoing efforts to effectively deal with steadily increasing income maintenance caseloads.

The Income Maintenance Activity of the Ministry provides financial assistance to Ontario residents in need who are unable to support themselves. Such assistance includes Family Benefits Allowances and General Welfare Assistance.

Expenditures for income maintenance for the 1988 fiscal year totalled $1.8 billion (Vote 802, Item 3).

SUMMARY

SCOPE AND OBJECTIVE

During our audit, we examined Ministry documents, Management Board of Cabinet submissions and minutes, and interviewed Ministry personnel. We also visited and interviewed staff in two Ministry and two municipal offices.

Our audit objective was to assess whether the Ministry had exercised adequate cost and time controls over the development and implementation of the Comprehensive Income Maintenance System project since its inception in 1980.

CONCLUSION AND FINDINGS

We concluded that the Ministry had not exercised adequate cost controls and had not met scheduled delivery dates in the development and implementation of the System. Some of our specific concerns were that:

- **Originally, the System was scheduled to be developed by December 1982 at a cost of $3.6 million. However, as of March 1988, it had been developed and implemented in only 28 of some 94 offices, at a cost of almost $23 million.**
- **Poor project cost controls had resulted in the Ministry understating costs incurred.**
- **Weaknesses in the acquisition and management of consulting services contributed to higher costs and project delays.**

Comments on Ministry Audits

- **Provincial and, in particular, municipal pilot offices questioned the usefulness of the System.**

COMMENTARY

Background

The Family Benefits Allowances Program is partially funded by the Federal Government which pays 50 per cent of the cost while the Province pays the other 50 per cent. The Program currently handles a monthly caseload of about 160,000 cases and is administered by the Ministry through approximately 70 local offices.

The General Welfare Assistance Program is 50 per cent funded by the Federal Government, 30 per cent by the Province, and 20 per cent by the municipalities. While the Program is a Provincial responsibility, it is administered by approximately 350 municipalities and Indian Bands, which look after an estimated 110,000 recipients per month.

In 1978, a Ministry Task Force recommended the development of an integrated computer system to replace the five existing computer systems supporting the administration of both Programs. As a result, the Comprehensive Income Maintenance System was initiated in July 1980. It was intended that the System would be operated in 44 Ministry and 50 municipal offices.

The System is intended to provide the capability of combining data on Family Benefits and General Welfare recipients and minimizing duplication of administrative functions at provincial and municipal levels. It is also being designed to provide better information for management operating in a decentralized program delivery environment.

PROJECT DELAYS AND COST ESCALATION

Numerous delays and cost increases have been encountered by the Ministry throughout the development of the System.

Following the completion of a feasibility study by a firm of consultants in February 1980, the firm was awarded a contract in July 1980 to manage and staff the development of the System. **The firm estimated that development would be completed within 2 1/2 years and cost approximately $3.6 million. A portion of the cost was reimbursable by the Federal Government.**

In December 1982, the Ministry advised Management Board that the management ability of the consulting firm, which had been paid $2.2 million, was not effective. It, therefore, requested approval from the Board to complete the System under Ministry management. **Also, the Ministry estimated that total project cost and duration would increase from $3.6 million over three years to $8.3 million over five years.** In this regard, the Ministry attributed the increase to an expanded scope and greater complexity of the project. The Board approved the Ministry's request in February 1983 and noted that the Federal Government would contribute $5.8 million.

Community and Social Services
Comprehensive Income Maintenance System

During April and May 1985, the first pilot tests were conducted in three municipal offices and two provincial offices. However, the number of problems which began to surface necessitated the allocation of all implementation resources to on-site support, trouble-shooting and problem identification. The Ministry decided that no further implementation should be undertaken until most problems had been resolved.

In April 1986, after a reassessment of costs, Management Board approved a further increase in the cost of the project to $19.4 million. The Board noted that reimbursement for the project from the Federal Government would be $10.4 million.

In September 1986, the Ministry submitted a status report to Management Board noting the recommendations of its Technology Steering Committee. The report indicated that the Committee, made up of senior management of the Ministry, had agreed that the System was technically ready for further implementation. However, the report noted that, due to user management considerations in regard to caseload staffing and the upcoming holiday season, the Committee had recommended to the Deputy Minister that future implementation should not commence until January 1987.

In May 1987, in another status report, the Ministry indicated that it planned to finalize implementation in 36 of its offices in the 1988 fiscal year.

At the conclusion of our audit field work in March 1988, **we noted that conversions had been completed in only three municipal and 25 Ministry offices at an estimated cost of $23 million.**

POOR COST CONTROLS

More than eight years have elapsed since the inception of the System project. We noted that, during this time, the Ministry did not maintain a proper accounting of costs pertaining to the project. Accordingly, the true costs of the project were not readily determinable.

The following examples were indicative of a lack of proper project cost accounting control:

- **Numerous employees worked on the project, yet their salaries were not specifically identified in the accounting records as relating to the project.**

- We reviewed the 1987 fiscal year time sheets of 23 consultants who had been engaged to work on the System. According to these records, **the consultants had billed the Ministry for approximately $1.2 million. However, we found that only half of this amount was reported as project expenditures.** The rest was shown under the Ministry's general overhead expenditures.

- **Also, the amount of time spent by field offices and administrative staff in completing the System was not recorded and reported as part of the overall project costs.**

Our March 1988 estimate of $23 million will likely increase by at least $700,000 in the 1989 fiscal year to complete implementation in the remaining Ministry offices. Costs to implement the System in the remaining municipal offices have not yet been determined pending finalization of implementation plans.

WEAKNESSES IN THE ACQUISITION AND MANAGEMENT OF CONSULTING SERVICES

Continued Reliance on Consultants Costly

In most instances, continued reliance on consultants is uneconomical and could be seen by the public as permitting a vendor to gain a monopoly on a particular kind of work. Therefore, Ontario Government guidelines on the acquisition of consulting services discourage continuous reliance on outside organizations.

Due primarily to the unanticipated complexity and complications encountered, the Ministry has relied quite heavily on consultants. From the project's inception in 1980 until March 31, 1988, we estimated that the Ministry had entered into more than 300 consulting contracts and spent approximately $10 million on consulting services. Approximately $7.5 million of this amount was spent after April 1, 1983, when the Ministry assumed management of the project. The length of these contracts ranged from 3 to 12 months.

Many of the contracts were continuation arrangements with the same consultants who had previously worked on other Ministry projects. For example, **four consultants had been under contract to the Ministry for more than seven years at rates of between $250 and $430 daily, earning fees between $60,000 to $100,000 annually. These earnings by consultants were more than double the salaries earned by employees occupying comparable positions within the Ministry.**

Consultant Selection Process Too Restrictive

On July 29, 1986, Management Board approved a request from the Ministry to tender for systems consulting services on a per diem basis. Approval was limited to a maximum of 22 person-years to provide the systems support during the period October 1, 1986 through March 31, 1988. The approval was also given on the understanding that consultants would work under contracts with defined requirements. A number of consulting firms were then requested by the Ministry to submit proposals for providing EDP staff assistance.

We noted that the 1986 request for consulting services up to March 31, 1988 was essentially a continuation of a 1984 request for consulting services to September 30, 1986. The resulting tenders were evaluated by the systems branch based on the following criteria:

- understanding of the project;

- per diem cost and availability;
- relevant experience/qualifications; and
- previous Ministry or Ontario Government experience.

In reviewing the tenders submitted, we noted that all 19 consulting contracts were awarded to individuals with prior experience on the project, while those applicants without such prior experience were not awarded any work. Although there would be benefits in hiring consultants with such prior experience, we felt that the selection process essentially eliminated bidders who had not previously worked on the System. Consequently, we questioned whether the process was really open and fair to all bidders.

In March 1988, the Ministry invited proposals from four consultants to undertake a number of System-related projects ranging in duration from 6 to 12 months. Again, only the consultants with prior project experience were hired.

Consultants' Work Not Clearly Defined

As indicated earlier, in 1986, Management Board approved the Ministry's request to engage consultants on the understanding that consultants would work under contracts with defined requirements. However, the contracts were worded in general terms only. For example, terms in contracts since 1984 have required the consultants to deliver "programming specifications and systems documentation". Yet these requirements were not defined in any detail nor was there any timetable for when the consultants were to complete their work.

Without a clear definition of what is specifically expected and established deadlines, there is no incentive to deliver a finished product on time. This could result in higher costs due to an increased number of days on the assignment by the consultant.

USER CONCERNS

We held discussions with users in each of two Ministry and municipal pilot offices to obtain their views on whether the Comprehensive Income Maintenance System was working satisfactorily.

The users felt that the System was processing information faster than the previous computer systems and that it had more automated functions. In addition, the System's on-line inquiry capability allowed caseworkers to identify clients who might have already been receiving assistance from another income maintenance program and/or location.

On the other hand, the users, particularly those at the municipal offices, expressed the following concerns regarding the System:

- **Numerous problems were encountered at the pilot offices during implementation.** For example, the offices indicated that major changes were sometimes incorporated into the System without adequate testing.

In this regard, changes requested by users between early 1985 and December 1987 totalled over 3,000. Although the number of requests have diminished, it remained high throughout 1987, averaging about 70 problems per month.

- Additionally, **the users felt that the Ministry's training had been poor, and that the user's manual was too complex and cumbersome.** We were informed that the Ministry has since revised its training program and the user's manual.

- The pilot offices felt that the System was unduly complex and the degree of precision required to input the data on each recipient was very high. For example, the System had close to 1,200 edit rules which control the processing of data. One office commented that its staff, even the most competent ones with computer background who understood the System, made a considerable number of errors.

  The municipal pilot offices also felt that unlike Family Benefits, General Welfare provides temporary and emergency assistance and, therefore, does not lend itself to such a rigid System. **The edit rules, while useful, could in some cases delay the issuance of cheques and create undue hardship to General Welfare recipients.** The municipal caseworkers indicated that they were servicing an unsophisticated clientele, who in some cases might not be aware of their case identifiers such as O.H.I.P. and S.I.N. Therefore, in their opinion more responsiveness was required of the System for General Welfare cases compared to Family Benefits cases.

  The Ministry maintained that strict controls were necessary to ensure that only eligible recipients received Welfare Assistance.

- **All of the pilot offices we visited indicated to us that, overall, the System had not reduced their workload when compared to the old systems.** In one Ministry office, for example, the number of input forms had increased from approximately 2,300 in one year to over 4,000 the following year when the System was implemented.

  Moreover, the caseworkers were concerned that too much time was spent by them on the System and its related problems rather than on case management with Welfare recipients. **A study by one Ministry office, subsequent to implementation, noted that caseworkers now spent up to 60 per cent of their time in the office working on the System, compared to just 20 per cent previously.**

In 1986, the Deputy Minister met with members of the Ontario Municipal Social Services Association to assure them that no further implementation would take place until the pilot offices had collectively agreed that the Comprehensive Income Maintenance System had stabilized and was acceptable to them.

To date, the municipal offices have not agreed to the acceptability of the System. We understand that management will be meeting with representatives from the Ontario Municipal Social Services Association to discuss the implementation schedule.

Community and Social Services
Comprehensive Income Maintenance System

RESPONSE

The Deputy Minister replied to our findings on October 12, 1988.

General

"In your audit of the Comprehensive Income Maintenance System . . . you concluded that the Ministry has not exercised proper cost and time controls over the development and implementation of CIMS. You specifically expressed concerns about :

- *the cost of CIMS increasing from $3.6 million to $23 million; and*
- *poor project costing and understated costs.*

"I must state at the outset that I believe the substance of your findings to be incorrect. Indeed it was because of the recorded management actions and control points that a detailed audit review was possible."

PROJECT DELAYS AND COST ESCALATION

"At each stage in the development of CIMS, proper management actions and procedures have been followed. Up to date and accurate costs and estimates have been available to Ministry management and Management Board at all points throughout CIMS development and implementation.

"Your staff have chosen to include elements of cost which, in my view, are not appropriately charged to CIMS, and in any event, are based on two differing views of what are properly to be charged to systems development costs.

"I would now like to comment more specifically on your . . . listed concerns and the overall issue of very large systems development. I am extremely concerned that your staff have not attempted to relate our experience to acknowledged, well known and accepted experiences elsewhere. Designing and implementing large complex systems, in this case one million lines of COBOL code, was pioneering work for most organizations in the early 1980s. One simply has to look at the multi-millions of dollars which were spent by the banks and other jurisdictions to realize the expenses involved in large systems. You will see from what I have written below, that even one of the most experienced consulting firms in Canada underestimated the costs for CIMS.

"The costs of CIMS rose from $3.6 million to $14.5 million for development and pilot implementation or $17.0 million including allotments for site implementation for the period covered by the audit. This is in contrast to $23 million implied by the words used in your report. We presume that the $23 million figure includes non-development costs such as computer charges for actually producing the welfare cheques for clients and overhead costs which would be present whether CIMS were to exist or not.

"I agree that the increase in cost since the inception of the project is substantial and requires explanation. Ministry management acted prudently at the start of the project and retained, after a tender and Management Board approval, one of the

Comments on Ministry Audits

most respected computer consulting firms in the country to provide an estimate of project costs. The fact is that the consultant, despite his expertise, misjudged the complexity of the income maintenance program, and underestimated the likely difficulty and cost of developing a complex new system. Management acted decisively and appropriately when it became apparent that the original cost estimates and plan were going to be inadequate. The consulting firm was released, re-planning and re-forecasting were carried out, and new approval was obtained from Management Board to proceed under Ministry project management using a wide variety of consulting personnel selected for their demonstrated expertise.

"Further cost increases beyond the Ministry re-estimate occurred for three reasons. Firstly, a major expansion to the system scope was approved to include the retroactive budget calculation function within the GWA component. Second, the level of difficulty experienced during the pilot implementations was greater than anticipated due largely to a higher number of programming bugs than expected, which in hindsight was common to large systems, and the implementation of an integrated common data file structure to the dual delivery systems of FBA/GWA. Finally, major legislative enhancements and program initiatives have been introduced since 1983 necessitating substantial changes to computer code. Costs for these types of changes are not included in the development estimates because it would be impossible to predict their timing and impact.

"I have looked into the cost of CIMS against similar large systems in other jurisdictions and on this basis am convinced that the cost incurred has been reasonable. The following examples are relevant:

Public Assistance System, State of Georgia:

Original development cost - $10.8 million over a nine-year period - subsequently extended and expanded state-wide.

Costs of systems operations, maintenance, implementation and enhancements since 1982 have been an additional $58.2 million.

Public Assistance System, State of New Mexico:

This system is based on the already developed Georgia system and yet cost $13.8 million excluding operating and maintenance costs. It supports a caseload of 84,000 clients versus 260,000 supported by CIMS.

Analysis of Data Presented by James Martin (one of the world's leading experts)in 1987:

James Martin analyzed a number of large systems developed in the United States in COBOL. His analyses show a range of actual experience of from $8 to $50 per line of COBOL code. Applying this to CIMS, which has one million lines of COBOL code, would give an equivalent range of costs as compared to similar systems of from $8 million to $50 million.

Reference in 'Programming Productivity' by Capers Jones, (a widely quoted authority on systems development productivity)McGraw Hill, 1986:

A cost analysis of a large order entry, sales and inventory system (500,000 lines of code) employing COBOL is included in his book. This system would compare approximately to CIMS.

The costs and project duration quoted are five years and $19 million to the end of the development phase.

"All of these comparisons show that CIMS is in the range of development costs for systems of this size and complexity. Very large COBOL systems are notoriously difficult and costly to develop. It is for this reason that systems development productivity tools such as CASE (computer aided systems design) and automated code generators have been brought on to the market within the past couple of years to reduce the cost and time expended in bringing complex systems into existence. These tools were not available to systems developers in the early 1980s, and the above range of costs reflect experience with actual large developments over the period in question."

POOR COST CONTROLS

"Poor project costing is one of your findings. This is based on an opinion of your auditors regarding the attribution of costs which we believe to be in error. Your costs include operational field staff time, network operations and computer rentals, all of which are ongoing and would be costs whether CIMS were to exist or not. With one exception (see below), the Ministry's cost attribution to CIMS has been accurate.

"Your staff did identify one situation where additional implementation staff were re-assigned and network staff were hired directly as a result of CIMS implementation and not reflected in the project costs. We accept your opinion that these costs should be included in the total CIMS project cost. We have now adjusted the CIMS costs by $2.5 million to reflect your finding for the period covered by the audit."

WEAKNESSES IN THE ACQUISITION AND MANAGEMENT OF CONSULTING SERVICES

"We have always strictly tendered for consultants and obtained Management Board approvals where necessary. Consultants have been hired based upon multiple criteria including cost, knowledge and experience. As was explained to your staff, CIMS is written in the System 2000 data base language which requires that programmers with relevant experience be hired if the learning curve is not to be too long and costly. We firmly believe that the consultants have been hired economically and in such a way to maximize the likelihood of success with the project. All consultants were, and are, evaluated although not with the formal documentation you wish to see. We will introduce a more formal, documented evaluation process in the future."

Comments on Ministry Audits

USER CONCERNS

". . . Many of your findings regarding user concerns are not current perceptions of the majority of users. Although it is true that CIMS was long in being developed and the pilot sites of three years ago experienced a considerable degree of dissatisfaction, you do not balance that historical truth against the current state of CIMS. I travel throughout the field constantly and my perception, contrary to that of your staff, is that CIMS is regarded as a success and being well implemented . . . I suggest that if your auditors had spent more time with the offices which have been implemented from Hamilton onwards, rather than the original pilot offices where there were initial difficulties, they would have come to a different conclusion.

"I consider that CIMS is now a successful system which has introduced consistency into our delivery of the income maintenance program, will deliver major benefits in terms of service, control, and productivity, and will provide the flexible base which will allow us to move rapidly to introduce the initial change process flowing out of the report of the Social Assistance Review Committee."

CLARIFICATION OF RESPONSE

In view of the Deputy Minister's substantial disagreement with the content of our report, we wrote to him providing further information with particular reference to project costs and user concerns.

PROJECT DELAYS AND COST ESCALATION

"On several occasions during the course of our audit we requested, without success, documentation from responsible staff within your Ministry showing a detailed breakdown of the project's actual versus estimated costs and the sources these costs were derived from. In fact, the $17 million figure quoted . . . in your response is the first composite figure to be reported to us.

"As the Ministry could not provide us with details, we compiled cost figures from various accounting and payroll records maintained by the Ministry over the past eight years. For the most part, we extracted costs clearly identified in these records as directly relating to CIMS development and implementation. We estimated certain other salary, consulting and computer processing costs. However, we made sure that recurring or non-development charges were specifically excluded from our calculation. Our breakdown of costs indicated that an estimated $23 million had been spent on the CIMS project as of March 1988. This breakdown was provided to your staff on August 3, 1988. At our exit meeting on September 14, your staff did mention that they disagreed with our estimate. However, they did not indicate specifically which components of costs included in our estimate were incorrect.

"Given the sketchy financial information available to us, we are confident that the elements of cost we included in arriving at the estimate of $23 million are as accurate as can be reasonably expected under the circumstances. In fact, we believe the figure to be a conservative estimate.

Community and Social Services
General Welfare Assistance Program

"The reasons (for cost increases beyond the Ministry re-estimate) are not entirely consistent with the ones provided to Management Board in the Ministry's requests for additional funds.

"According to the Ministry's initial submission to Management Board in 1980, the retroactive budget calculation function was already part of the original system scope.

"In its second submission to Management Board, in 1982, the Ministry attributed the higher costs of $8.3 million to 'an expanded scope of the application, particularly to support plans to put FBA employables under Municipal Administration'. These plans were never implemented to any significant extent.

"The further increase in costs to $19.4 million, approved by Management Board in 1986, were not supported by any written explanations from the Ministry.

"We acknowledge that there are undoubtedly large systems in other jurisdictions, and even in the provincial government for that matter, which have incurred both greater and lesser development costs than CIMS. This in no way mitigates the Ministry's responsibility to have sound cost and project delivery controls in place. Accordingly, our audit objective was to assess the fulfillment of this responsibility. The cost of systems in other jurisdictions was not relevant to this objective."

USER CONCERNS

"Our visits were made during January 1988 and reflected the opinion of the users at the time.

"We visited two out of the only three municipal (GWA) offices that had been implemented at that time.

"Of the 19 Ministry (FBA) offices operating at January 1988, 14 had been implemented for three months or less. Quite frankly, we were well aware that it takes a few months to 'work the kinks out' and felt that visiting those offices where CIMS had just been implemented could have presented somewhat of a biased picture. Therefore, for our visits, we selected two out of the remaining five offices.

"We are pleased to note that eight months after our visits the Ministry (FBA) offices are now operating smoothly. However, as we very clearly emphasized in our report, we remain concerned with implementation in the municipal (GWA) offices."

3.3
Unsatisfactory Monitoring Procedures, General Welfare Assistance Program, Ministry of Community and Social Services

The General Welfare Assistance (GWA) Program provides emergency and short-term financial assistance to people who are unable to pay for such basic necessities as food, clothing and shelter. GWA allowances and benefits are provided by the Ministry under the authority of the General Welfare Assistance Act and related regulations. In addition, GWA recipients are entitled to free prescription drugs under the Ontario Drug Benefit Act.

Comments on Ministry Audits

During the 1988 fiscal year, the Ministry spent a total of $1.9 billion on income maintenance programs of which $604 million pertained to General Welfare Assistance (Vote 802, Item 3).

SUMMARY

SCOPE AND OBJECTIVE

In conducting our review of the Ministry's General Welfare Assistance Program, one of our objectives was to assess whether the Ministry's monitoring procedures were adequate to ensure that legislation and Ministry guidelines were followed by municipalities.

CONCLUSION AND FINDINGS

The Ministry's monitoring procedures were inadequate to ensure that legislation and Ministry guidelines were followed by municipalities.

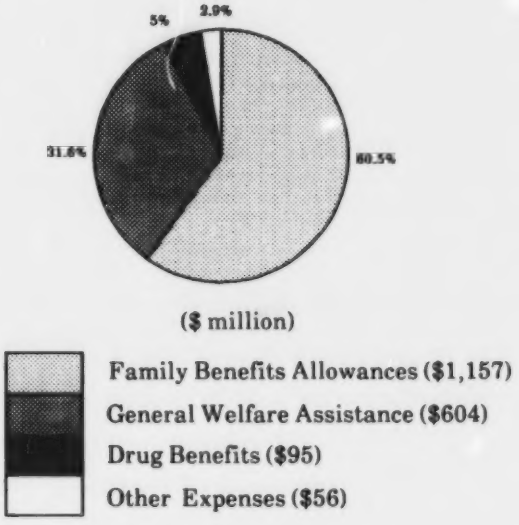
- **Area offices had insufficient resources to conduct regular eligibility reviews.**
- **The head office information system did not provide enough performance data.**
- **Poor control over blank Drug Benefit Cards could lead to unauthorized use.**

COMMENTARY

Overview

In the 1988 fiscal year, the Ministry allocated 31.6 per cent of its total income maintenance expenditures to the General Welfare Assistance Program.

Income Maintenance Expenditures, 1988 fiscal year



Community and Social Services
General Welfare Assistance Program

Approximately $460 million of the $604 million expenditure pertaining to General Welfare was spent by 12 major municipalities. The cost of providing GWA is generally shared by the Federal, Provincial and Municipal Governments as follows:

	Federal	Provincial	Municipal
Welfare Assistance	50%	30%	20%
Drug Benefits	50%	50%	0%

While primarily funded by the Federal and Provincial Governments, the GWA Program is administered by approximately 350 municipalities and Indian Bands, which look after an estimated 110,000 recipients per month. The Ministry reimburses both the Federal and Provincial share to the municipality or Indian Band. The Ministry then recovers the Federal Government's share under the terms of a Federal/Provincial Cost Sharing Agreement under the Canada Assistance Plan Act.

The Ministry monitors all of its social programs, including GWA, through 4 regional and 13 area offices. In addition, there are several support branches at the head office in Toronto which develop policies and procedures pertaining to the delivery of the various programs.

The Ministry's regional and area offices are primarily responsible for the periodic assessment of municipal and Indian Band compliance with these policies and procedures. Review Officers located in each area office assist management in monitoring the delivery of GWA as well as other Ministry-funded programs. The Review Officers are responsible for regularly visiting municipalities to verify the accuracy of GWA claims for reimbursement. As well, they verify that payments are made only to eligible recipients.

MONITORING

Weaknesses in Review of GWA Claims

Inadequate Ministry Resources

Our review disclosed that 27 Review Officers were responsible for approximately 350 municipalities and Indian Bands. The scope of work carried out at the municipal level depends to a large extent on the Officer's available time. We noted that :

- **Eligibility reviews in the largest municipalities have not been performed by Officers for a number of years.** In addition, in two of the three area offices we visited, the verification of reimbursement claims to municipal records was up to 18 months overdue.

- **In Metropolitan Toronto, one Review Officer was responsible for conducting file and eligibility reviews of some 38,000 Welfare recipients receiving, in total, over $14 million in Assistance per month. Clearly, one Officer could not perform sufficient work to provide the necessary assurance that Metropolitan Toronto had an**

adequate system in place to ensure only eligible recipients received General Welfare Assistance.

An internal study of Review Officer positions and workload, recently conducted by the Toronto Area Office, reported that:

- the job specification bears little resemblance to the actual job being performed; and
- present resources within the Area Office are insufficient to provide meaningful file reviews.

At present, the Toronto Area Office is reviewing the possibility of increasing its resources for monitoring GWA. We recommended that the Ministry's head office management conduct a province-wide review to ensure an equitable allocation of resources consistent with the case workload of each region.

Lack of Standards for Review Officers

The Ministry's Administrative Manual, which is supplied to Review Officers, provides a list of the types of tests to be conducted at each visit to a municipality or Indian Band. However, the Manual provides no guidance as to the number of such tests to be undertaken. Additionally, the Ministry has not established procedures for the documentation, reporting and follow-up on observations. **If Review Officers were required to report on common criteria,** statistics could be collected on information such as the number of files examined and the dollar effect of errors observed. **Comparisons could then be made between municipalities and conclusions drawn on the quality of administration of each municipality in delivering the GWA Program.**

Lack of Monitoring at Head Office Level

We noted that Ministry monitoring of the GWA Program was largely informal. Written reports summarizing results of the examinations of municipalities were rarely prepared by the area Review Officers. In the few cases where reports were produced, they were not forwarded to the regional office and/or head office.

Head office received only statistical reports containing monthly caseload data for about 40 of the larger municipalities registered on the Municipal Assistance Information Network computer system. This system did not provide any indicators that reflected how effectively the municipalities were administering the General Welfare Assistance Act. For example, indicators relating to the percentage of applications approved, overpayments and recoveries, as well as input from the area offices regarding the degree of adherence to corporate policies by municipalities, would provide useful information to assist in the monitoring of the Program.

Given the Ministry's decentralized reporting structure, we felt that a better information system was needed at head office. **In discussions with senior management at head office, they acknowledged that better monitoring of**

the Program was necessary. We were informed that a Steering Committee had been established to review the need to develop and maintain a provincial monitoring process.

Better Controls Needed over GWA Drug Benefits

Background

Prescription drugs are provided free of charge to anyone receiving assistance under the Family Benefits Act and/or the General Welfare Assistance Act. A GWA recipient is issued a Drug Benefit Eligibility Card which is automatically produced as part of the monthly welfare cheque. This computerized card contains the beneficiary's name, dependents' names, personal identification number and benefit period. Individuals joining the Program between computer cheque runs are issued cards manually by respective municipalities.

To obtain free drugs, a recipient presents his/her card to a pharmacist, along with a doctor's prescription. The pharmacist retains the card and submits a claim which is reimbursed by the Ministry of Health. Each month, the Ministry of Health invoices the Ministry of Community and Social Services for the amount of drug claims paid. In the 1988 fiscal year, the Ministry of Community and Social Services made payments totalling $25 million for prescription drugs provided to GWA recipients.

Weaknesses in Controls over Drug Benefits

Our review disclosed:

- **The Ministry could not verify billings from the Ministry of Health to ensure that only eligible GWA recipients received free drug benefits.** Rather, they relied on the work of the Drug Programs Branch at the Ministry of Health, which was responsible for the administration of the Province's Drug Benefits Program.

  We were advised that the Drug Programs Branch used a computerized matching process to verify that drug benefits were only provided to eligible recipients under the Family Benefits Act. This process allowed them to compare the personal identification numbers recorded on pharmacists' claims to those recorded on the Ministry of Community and Social Services's computer system. Such a process has not been available for drug benefits paid to GWA recipients. Branch staff, therefore, visit pharmacists to check that claims submitted are supported by Drug Benefit Eligibility Cards. However, such checks would not provide assurance that the cards were validly issued.

  We were informed that the Income Maintenance Branch of the Ministry was discussing ways to improve controls over the GWA Drug Benefits Program with the Drug Programs Branch of the Ministry of Health .

- **The safeguarding of blank drug cards was inadequate.** We noted during our visits to three municipalities that an excessive number of blank

cards were on hand and controls were weak regarding the numbering, storage and issuance of these cards to field workers.

For instance, we noted that Metropolitan Toronto handles approximately 7,000 blank cards per month. **Municipal caseworkers can requisition a supply of blank cards for new recipients, yet no record is maintained as to who requests the cards and how many are issued.**

The lack of procedures to safeguard blank drug cards could result in unauthorized use going undetected. Any individual in possession of a blank card and a doctor's prescription could obtain free prescription drugs by filling in his/her name and a fictitious number on the card. Neither the pharmacist nor the Ministry of Health would be able to detect an ineligible personal identification number.

The Comprehensive Audit and Review Branch of the Ministry expressed similar concerns in 1987 during their audits of two municipalities.

Social Assistance Review Committee

In July 1986, the Ontario Cabinet appointed a Social Assistance Review Committee to make recommendations for a thorough overhaul of the income maintenance system. The Committee examined:

- what the guiding principles and objectives of social assistance and related programs should be;
- to what extent the present system is meeting these objectives;
- what overall strategies for change the Province should adopt; and,
- what parameters the Province should accept as it moves to change its legislation.

The Ministry expected the Committee to issue its findings and recommendations to the Minister by September 1988.

RESPONSE

We received the Deputy Minister's response on September 22, 1988.

MONITORING

Weaknesses in Review of GWA Claims

". . . review officers carry out regular visits to municipalities and Indian Bands. The frequency of the visits is dependent on available staffing and local environmental needs. The matter of establishing more comprehensive standards for the scope of examinations and subsequent documentation for follow-up will be addressed.

Consumer and Commercial Relations
Vital Statistics Information System

"The Ministry agrees that both the staffing levels in the GWA review process and the job specification of review officers require evaluation. Action will be taken to achieve this through secondment of staff with the appropriate knowledge and expertise in the area of program review.

"With regard to the particular situation in Metro Toronto, four review officers are now in place."

Lack of Monitoring at Head Office Level

"... improvements can be made in coordinating the head office monitoring function for the GWA program. Head office staff meet regularly with the provincial program supervisors of Income Maintenance to discuss program changes and problems in order to ensure consistent understanding of how the program is to be delivered. As well, head office staff are in constant touch with program supervisors through the introduction of computer conferencing, which allows for a process of information-sharing across the province."

Better Controls Needed Over GWA Drug Benefits

"... negotiations are presently underway with staff of the Ontario Drug Benefit Plan to put in place a system of verifying eligibility of GWA drug-card users. These negotiations are progressing well, and the Ministry expects that a system similar to the one in place for FBA (Family Benefit Allowances) can be implemented in the near future.

"The Ontario Drug Benefit Plan presently receives up-to-date CIMS (Comprehensive Income Maintenance System) tapes for the small number of municipalities currently on CIMS.... As of December 1989, it is anticipated that 80% of the General Welfare Assistance caseload will be on CIMS so that the Drug Plan will receive tapes weekly.

"With regard to concerns expressed in the area of security in the use of blank drug cards, a directive will be issued to municipalities asking that procedures be put in place to regulate the use and distribution of cards."

3.4 Improved Security Needed, Vital Statistics Information System, Ministry of Consumer and Commercial Relations

The Ministry's Registrar General Branch is responsible for the administration and registration of the births, marriages, still-births, deaths, adoptions, divorces and changes of name that occur in Ontario. Services provided to the public include the issuance of certificates, certified copies of registrations, genealogical statements and search notifications.

Comments on Ministry Audits

SUMMARY

SCOPE AND OBJECTIVE

Our audit focused on the operation of the Vital Statistics Information System used by the Registrar General Branch, including an assessment of the controls to ensure the security and privacy of personal data.

CONCLUSION AND FINDINGS

SECURITY AND PRIVACY OF PERSONAL DATA

Security controls over information stored on the Vital Statistics Information System data bases at the main computer centre were satisfactory. However, control over the security and privacy of personal information held by the Branch required strengthening. Specifically:

- **storage and handling of Branch records did not meet minimum standards;**
- **information concerning adoptions was not secure;**
- **copies of personal information were disposed of improperly; and**
- **file room doors were left unlocked.**

COMMENTARY

Background

Original registration records of births, deaths and marriages that have occurred in Ontario from 1869 to the present are maintained by the Registrar General Branch. Over 343,000 events were registered in 1987 and approximately 500,000 requests from the public were processed.

SECURITY AND PRIVACY OF PERSONAL DATA

Particularly in light of the personal nature of the information that is registered and maintained by the Branch, it is essential that the data remain secure. The details of each registration or updated information should only be released to authorized individuals in compliance with the Freedom of Information and Privacy Act, 1987.

We examined the security controls over the information that was stored on the Vital Statistics Information System data bases at the main computer centre and determined that these were satisfactory. However, we observed some environmental and security shortcomings. The following are our specific observations.

Archival Standards Not Met

The main file room of the Branch contains approximately 40,000 bound volumes of original registration documents. These are frequently referred to by various Branch staff. During the final stage of processing a registration, a microfilm copy

of all documents is made. The microfilm copy is a back-up record and is also used for reference on occasions when the original document is not available. Access between the adjacent microfilm and main file rooms is unrestricted.

With the assistance of the Head Conservator of the Archives of Ontario we reviewed the physical environment in which the original records and microfilm are handled and stored. **We were advised that the storage and handling facilities were inadequate and did not meet the minimum archival standards set by National Standards of Canada and by the American National Standards Institute.** The minimum standards would protect the records, on a long-term basis, from deterioration caused by environmental factors, such as poor air quality, exposure to variable temperature, humidity, dust, etc.

Branch management stated that they were aware of the deficiencies and will address them in their Branch Relocation Master Plan.

Adoption Information Not Secure

Branch procedures require that original documents concerning adoptions be kept in sealed envelopes under lock and key. Prior to Branch staff obtaining any adoption information, the specific authorization of the Deputy Registrar General is required. However, **the computer listings containing information on all Ontario adoptions were not secure.** Preliminary information could be obtained on any adoption by reviewing the computer listing and locating the relevant documentation in the records file room.

We recommended that all information which may be used to trace adoption particulars be treated as confidential.

Improper Disposal of Personal Information

If the photocopies of personal documents made by Branch staff are blurred or misaligned, they are discarded into the regular garbage containers. **During the audit we retrieved legible photocopies of personal information, including confidential adoption records, from these containers.**

We recommended that unused copies of personal information be treated as classified waste and shredded before being disposed.

File Room Doors Left Unlocked

We observed that one of the doors to the file room which contains the original registration records was unlocked both during business and non-business hours. This door provided access to one of the main public corridors of the MacDonald Block in the Queen's Park complex. In addition, **the door to the microfilm area was usually left open during the day.** We were advised that this door had to be left open to disperse film processing odors because the room did not have an exhaust fan.

We recommended that these doors be kept closed and locked, and that an exhaust fan be installed to properly ventilate the microfilm room.

RESPONSE

The Deputy Minister's response to our comments and recommendations is as follows:

SECURITY AND PRIVACY OF PERSONAL DATA

Archival Standards Not Met

"The program requirements for the (new) building in Thunder Bay have identified environmental requirements for the storage and handling of original and microfilm records."

Adoption Information Not Secure

"The computer listings containing information of Ontario adoptions are available to staff who have taken an oath of secrecy, as is all other confidential information. These listings are secured in locked storage."

Improper Disposal of Personal Information

"Procedures were in place for mass destruction of classified waste. However, in the isolated case that the auditor referred to, unused copies of records were not destroyed in the prescribed manner. Unused copies will be treated as classified waste and procedures for the systematic destruction of these records have been installed."

File Room Doors Left Unlocked

"Doors to the record room have self-loading latches. Employees may exit these doors but they are kept locked so that no one can enter by them.

"An exhaust fan will be installed in the microfilm room as soon as possible."

3.5
Better Monitoring Required, Community Facilities Improvement Program, Ministry of Culture and Communications

The Ministry's Community Facilities Improvement Program was launched in April 1985 and used Wintario lottery funds to provide financing for the improvement and development of cultural, multicultural and community facilities, for the conservation of heritage buildings, and for the support of archaeological projects. The Program ended on March 31, 1988, and has been replaced by the Cultural Facilities Improvement Program.

About 500 grants had been awarded since the Program's inception with grant expenditures and commitments for the three-year period totalling $56 million.

Culture and Communications
Community Facilities Improvement Program

SUMMARY

SCOPE AND OBJECTIVES

Our audit of the Ministry's Community Facilities Improvement Program included visits to 22 organizations which had received grants, totalling $10 million, within the past three years.

Our audit objectives were to assess whether:

- adequate controls existed to ensure only eligible projects were approved and funded by the Ministry;
- the Ministry had an adequate monitoring process to ensure Program guidelines were followed by grant recipients.

CONCLUSIONS AND FINDINGS

GRANT APPROVAL AND FUNDING

Controls to ensure only eligible projects were approved and funded were weak. We questioned whether sufficient consideration was being given before grants were approved and funds were provided.

GRANT MONITORING

Recipient contracts governing the use of the grant were well written. However, the Ministry did not have adequate monitoring controls to ensure that the terms of the contracts were followed by recipients.

- **About 30 per cent of the 22 recipients we inspected had incurred expenditures that were not in accordance with Program guidelines.**
- **Funds were re-allocated to meet the escalating costs of a major church restoration project.**

COMMENTARY

Background

Any Municipality, School or Library Board, Indian Band Council or incorporated non-profit organization which delivered cultural or community services/programs was eligible to apply for a grant from the Community Facilities Improvement Program. Depending on the nature of the project, funding ranged from 33 to 75 per cent of the estimated eligible costs, as defined in the Program guidelines.

Grant applications were initially handled by staff in 14 regional offices throughout the Province. Once an application had been reviewed for completeness, it was sent to one of three Program branches at the Ministry's main office in Toronto. Staff in the Arts, Heritage, and Libraries and Community Information Branches were responsible for making recommendations on the grant applications and approving requests for payment.

Individual grants exceeding $250,000 were required to be reviewed by Management Board and approved by Cabinet. Additionally, with such applications, a feasibility study, including some assurance of long-term operating viability, was required.

The Ministry made interim payments to the applicants of up to 85 per cent of the approved grant, based upon a statement from the applicant certifying the stage of completion of the project. The final payment of the remaining 15 per cent required submission of supporting documents such as invoices and audited financial statements.

GRANT APPROVAL AND FUNDING

From our review of files pertaining to 22 grant recipients, we noted that applications had not been adequately evaluated to ensure that only eligible projects were funded by the Ministry. For example:

- Two of the terms and conditions for a grant required that a building had to be a cultural, multicultural or community facility and that it be open to the public at all reasonable times. **The University of Toronto received a grant for $100,000 in 1986 to expand its printing warehouse.** We questioned how a warehouse could be considered as a cultural or community facility available for general public use.

  We noted that ministerial discretion was exercised to fund the project. The approval was given to enable the recipient to expand distribution services to Canadian-owned and controlled publishing houses located in Ontario.

- In 1986, the Ministry approved a grant of approximately $214,000, representing about 75 per cent of the estimated total cost, for an archaeological research project by an Indian Band Council. An interim payment of $150,000 was made to the Council at that time.

  We noted that **the application included over $100,000 of costs relating to a previous project.** As such, under Program guidelines these costs should have been deemed ineligible by the Ministry. However, **the Ministry failed to question the eligibility of these costs although they had been clearly identified in the application.**

- During 1985 and 1986 the Ministry paid grants totalling $650,000 to a community centre located in North Bay. These grants were for the renovation of a 1,000 seat theatre into a community arts centre expected to cost approximately $2.4 million.

  Prior to the approval of this application the Ministry had provided grants of $18,000 towards two feasibility studies by a firm of consultants. **The first study examined the possibility of converting the theatre into an arts centre but did not address the operating viability of the project. Such an assessment had been specifically required.** The second study concluded that enthusiastic support had been expressed by the majority of people interviewed but again did not come to any firm conclusion about the future financial viability of the project. In fact, our review of the study

indicated that most of those interviewed at that time had expressed concerns as to the ability of the community to support annual deficits any larger than $50,000.

We did not find any written evidence that the above concerns had been adequately considered by the Ministry before approving the grants.

We further noted that the centre incurred an operating deficit of $99,000 in 1987 compared to an operating surplus of $600 in 1986. The deficit occurred despite a significant increase in funding from the City of North Bay.

In discussing our concerns over project evaluation, we were advised that the Ministry had strengthened its grant evaluation process. More specifically, a prioritizing system for the new Cultural Facilities Improvement Program has now been implemented.

GRANT MONITORING

Good Contractual Arrangements with Recipients

All grant applicants had to complete and sign standardized applications which served as binding contracts once the Ministry had approved each grant.

We found the contracts to be complete and well written. The terms and conditions of these documents, if followed, would have been adequate to ensure that grants were properly spent. They also provided good recourse for recovery of funds if the recipient failed to abide by one or more of their requirements. However, we noted that **there had been little ongoing monitoring by the Ministry of the eligibility of grant expenditures made by the recipients.**

Overpayments and Ineligible Expenditures Noted

Our visits to 22 grant recipients disclosed instances of overpayments and ineligible expenditures in about 30 per cent of the cases. For example:

- In 1985, the Ministry approved an application from a London area Separate School Board to perform heritage restoration work on a former school. Project costs were estimated at $818,000, of which $409,000 was approved and paid by the Ministry in two instalments, $348,000 in 1986 and $61,000 in 1987.

  Our visit to the school showed that **the actual expenditures for eligible items were significantly less than had been originally estimated. As a result, we concluded that the Ministry had overpaid the School Board by approximately $240,000.** For example, in one case, the application showed that the school's windows would be restored at a cost of approximately $210,000. However, the Board only spent $18,000 to repair the windows. In another case, a new roof was to be installed at a cost of $108,000. We noted that, except for minor repairs, this work had not been carried out.

In 1986, the School Board submitted a second application requesting an additional grant in the amount of $263,000 relating to a second phase of the restoration project. **We noted that many of the specified items on this second application were identical to those funded under the first phase of the project, including the installation of a new roof.** The Ministry's regional staff indicated that, after consulting with the Heritage Branch, the application had been recommended for head office approval. However, during the final stages of our audit, we were advised that the Ministry will not be approving this application until all work relating to the first phase of the project has been completed.

- The University of Western Ontario, on behalf of its affiliate, the Museum of Indian Archaeology, applied for a grant in 1985. The University indicated that the Museum proposed to perform an archaeological excavation of an Indian village and to prepare an exhibit of the artifacts that were unearthed. Out of estimated total project costs of $320,000, the Ministry approved a grant of $240,000. To date, the Ministry has paid $204,000 to the University.

  We noted that the application for the grant failed to mention all of the funding received from other sources. For instance, we noted that at the time of application the Museum had already received a commitment of funds of $150,000 from a company towards the project. **As a result, we concluded that the Ministry had overpaid the University since the approved grant would have been for a lesser amount had the University provided full details of this other funding.**

  We referred our concerns to management. The Ministry's Internal Audit Branch investigated and recommended that the final grant payment of $36,000 be withheld and repayment of $80,000 be requested from the University. We noted that the Deputy Minister responded promptly by writing to the University asking that the sum be returned to the Ministry at the earliest opportunity.

- As noted previously, in respect of the archaeology research project for $214,000 by an Indian Band Council, the Ministry had made an interim payment of $150,000 in 1986. At the time of our visit in February 1988, we noted that cumulative expenditures on the project totalled $51,000. We found certain payments of a questionable nature included in this amount. For example:

  - **The Council paid invoices totalling approximately $10,000 for the services of two full-time and two part-time training staff provided by an archaeological society. In examining these invoices we noted that two of the four staff were full-time Ministry employees.** We were informed that one of the employees had provided free services to the society while the other employee had never participated in the training program. Under the circumstances, we questioned the accuracy and propriety of the society's billings.

- **Travel expenses totalling $1,000 for a Council member to attend an accounting course were incorrectly included as eligible costs.**

- **Per diem payments to Council members, totalling $2,000, to attend Council Committee meetings that were unrelated to the project were also charged to the project.** Under Program guidelines, meeting expenses were specifically disallowed.

We recommended that the Ministry strengthen its monitoring controls. This should include periodic on-site review of pertinent records supporting claimed expenditures, particularly for large grant recipients.

Re-allocated Church Restoration Costs

In 1986, the Ministry approved a grant of $706,000 for the restoration of a historical church constructed between 1852 and 1875 in Hamilton. The work, expected to be completed by 1989, was to be performed in two areas, the Cathedral and the Parish Hall, both located in one building. Costs were estimated to total $1.4 million. In March 1987, the Ministry paid $494,000 to the Church representing 70 per cent of the approved grant. As of our inspection visit in February 1988, this was the only amount that had been paid to the Church by the Ministry.

We had concerns regarding this project:

- To date the majority of project payments have been to the architect and a masonry contractor. At the time of receiving payment of $494,000 from the Ministry, the Church had indicated that the work had been competitively selected. However, our examination showed that both the architect and the contractor were not competitively selected.

  We were informed by the architect that the masonry contractor was not selected competitively due to the specialized nature of the work. However, during our visit to another grant recipient we noted that work involving restoration of a historical building had been tendered. Also, in speaking with Ministry staff, they indicated that the project could have been tendered.

- There was no evidence of a written contract between the Church and the architect. Except for one contract covering a small portion of the work, there was also no evidence of a signed contract between the Church and the masonry contractor.

  Furthermore, **the arrangement between the Church and the masonry contractor was without a fixed price.** The masonry contractor, who as of January 31, 1988 had been paid $570,000, was charging for his services on a "cost plus" basis. We question the propriety of such an arrangement as, without a ceiling price, cost increases would be difficult to control.

- In December 1987, the Dean of the Church informed the Ministry that there had been an overrun in the cost of the Cathedral restoration. He advised that **the cost to restore just the Cathedral would now be**

about $1.5 million. Therefore, he requested permission from the Ministry to apply the entire grant of $706,000 towards the cost to complete the restoration of the Cathedral by March 31, 1989. Permission was granted by the Ministry in January 1988.

In 1986, when the Ministry approved the grant of $706,000, it was made up of two components: $530,000 towards restoration of the Cathedral and $176,000 towards restoration of the Parish Hall. Therefore, permission to divert funds, initially earmarked for different work, was questionable.

RESPONSE

The Deputy Minister's reply was received on October 14, 1988.

GRANT APPROVAL AND FUNDING

"As the report noted, the Ministry introduced a number of programme revisions, effective April 1, 1988, which are aimed at making more effective use of available resources and providing a better basis for selecting among competing projects. These changes include having a number of clearly stated grant categories reflecting ministry and client priorities, introducing three grant competition periods per year, and establishing the grant maximum for construction projects at the lesser of one-third of the eligible costs or $1 million. The revised programme will provide staff with the basis for assessing applications more rigorously.

"The Ministry is pleased to note that the report found the grant contracts and terms and conditions to be well-written and adequate to ensure that grants are properly spent. These terms and conditions provide for progress payments, upon application by the client, at specified points throughout the project, and a full review of the financial accounting before the final payment is issued. The Ministry notes, however, that a number of the projects selected for audit were still in progress, and that the Ministry's complete financial review which occurs upon the project's completion had not yet taken place.

"Notwithstanding the (preceding), the Ministry will consider means of monitoring more strongly recipients' accountability, particularly in the case of grants over $100,000. We shall address such elements as :

- *methods by which clients can ensure adequate budgeting at the outset of a project and maintain overall cost control throughout (e.g. employing the services of a quantity surveyor);*
- *methods of ensuring clients' adherence to grant terms and conditions as the project proceeds (e.g. interim financial reporting);*
- *developing a programme for review of recipient accountability which would include inspections by programme staff, as well as audits by the Internal Audit Branch.*

"In finalizing approaches to these issues, the Ministry will strive to achieve a balance between the need to ensure programme accountability and the limitations imposed by the number of Ministry staff. In addition to these general comments, we offer the following specific comments on projects cited in the report:

Culture and Communications
Community Facilities Improvement Program

Printing Warehouse

"As the report noted, ministerial discretion was exercised to fund the expansion of the printing warehouse of the non-profit University of Toronto Press, although it did not meet the criterion of accessibility to the public. The project allowed the recipient to expand distribution services to small Canadian publishers, thus increasing the availability of Canadian books throughout Ontario. It was the recommendation of Ministry staff that the Minister exercise her discretion to fund the project because it met the overall programme objective of improving delivery of an existing cultural service and this consideration outweighed the marginal ineligibility of the application."

Indian Band in Southwestern Ontario

"The report stated that part of this application related to a previous project and should have been deemed ineligible. The Ministry does not agree that there were two separate projects. The client initially planned a smaller project but, after some limited preliminary work, the scope was expanded and an application was made under CFIP for the enlarged project. Since the enlarged project met the CFIP criteria, the grant was approved. The Ministry acknowledges that minister's discretion should have been exercised to fund that limited portion of the project undertaken before the application was submitted formally."

Community Arts Centre

"The Ministry acknowledges the points raised in the report. More rigorous conditions relating to the overall feasibility of projects were introduced when CFIP was revised April 1, 1988."

GRANT MONITORING

Overpayments and Ineligible Expenditures Noted

London Area Separate School Board

"The Ministry is working with the recipient to ensure completion of phase one of the project. The application received in November 1986 has not been approved and further funding will not be considered until the first phase is complete."

University of Western Ontario

"The audit of this project identified the fact that the application for the grant failed to mention all of the funding received from other sources for the project. The report noted the prompt action on the part of the Ministry when the audit findings were brought to our attention. The Ministry is continuing to pursue this matter with the client."

Indian Band Council in Southwestern Ontario

"The audit of the project in process found that expenses are being charged to the project which may not be eligible for grant funding. With reference to the specific matter of the training programme, the Ministry would like to reiterate that no Ministry staff received payment for services provided. The Ministry notes the findings and will give them careful consideration during the financial review at the conclusion of the project, should the applicant, in fact, claim these expenses for a grant payment."

Comments on Ministry Audits

Re-allocated Church Restoration Costs

"The Ministry agrees that the project has experienced financial difficulty. Staff have been actively involved in efforts to mitigate the situation. As part of that consultation, the Ministry agreed to re-negotiate the definition of the project to ensure that the elements most essential to the preservation of this historically important church would be completed without increasing the size of the grant. The Ministry judges the re-negotiation to be a realistic option in dealing with clients in exceptional circumstances."

3.6 Development and Implementation Concerns, Computers in Education Initiative, Ministry of Education

The Ministry's Computers in Education initiative was created to develop and integrate microcomputers and educational software into the curriculum of Ontario's 1.8 million students.

Total expenditures for the initiative since its inception in 1980 have been $131 million, with expenditures for the 1988 fiscal year totalling approximately $48 million.

SUMMARY

SCOPE AND OBJECTIVE

Our audit examined the initiatives of the Ministry's Computers in Education Centre (Education Centre), as well as related activities of the Ontario Educational Communications Authority (TVOntario) and the Software Development Assistance Centre (Assistance Centre) at the Ontario Institute for Studies in Education. We also visited some 20 school boards and 40 schools, interviewing Directors of Education, Superintendents of Curriculum, Principals, Teachers and other staff.

We reviewed the results of the Ministry's sponsorship of an "ideal" microcomputer for Ontario's education system and assessed the adequacy of the Ministry's role in:

- the acquisition, development and licencing of educational software for the computers in use in schools; and
- the process and status of implementation of computers into the classroom.

CONCLUSIONS AND FINDINGS

SUITABILITY OF COMPUTERS SELECTED

The problems created by the unique and advanced features of the sponsored computers have limited the overall effectiveness of the Ministry's Computers in Education initiative. Specifically:

- **They are incompatible with others in the marketplace and, therefore, any existing educational software is unusable.**
- **The Ministry's incentive grants have encouraged school boards to purchase the sponsored computers when less expensive machines would have met most of their needs.**

Education

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- **The relatively high cost of the sponsored microcomputers has resulted in limited and varied access to computers for students and Teachers across the province.**

- **The Government's objective to create a Canadian computer and software industry has not materialized.**

SOFTWARE DEVELOPMENT AND LICENCING

Although some good software programs have been developed for the Ministry-sponsored computers, the software development and licencing process has been less than satisfactory. Specifically:

- **Some development and licencing efforts have been wasted because school needs were not properly assessed.**

- **There have been significant delays in the approval of software development projects.**

- **The field testing of software prior to distribution to schools was very poor.**

- **No effort has been made to support software acquisitions for computers not sponsored by the Ministry despite the fact that such computers constitute 74 per cent of all computers presently in schools.**

IMPLEMENTATION

The Ministry's efforts have focused primarily on the development and distribution of computers and software.

- **Inadequate emphasis has been placed on their effective implementation in the classroom.**

- **The training of Teachers in the use of computers in the classroom has been generally lacking.**

- **Insufficient research into the effectiveness of computers in educating students has been conducted.**

- **If this ambitious initiative is to be achieved in a cost-effective manner, important decisions are needed now.**

COMMENTARY

Background

In the late 1970s , the Ministry recognized the potential for computer technology to improve learning and influence the way we educate students. The ultimate goal of the Ministry was for every student to have access to 30 minutes of computer time daily in a variety of curriculum areas by 1996. However, the Ministry was not satisfied with the educational quality and suitability of computers and software existing at that time. They also felt that having a standard microcomputer rather than multiple brands would make it easier to supply good quality educational software to the schools. Therefore, in 1981,

consistent with the Government's interest in developing an Ontario-based hardware and software industry capable of competing in the international marketplace, the Ministry set out to determine the "ideal" microcomputer.

Total expenditures for the initiative by the Ministry for the eight-year period to March 31, 1988 were as follows:

	($ millions)
Research, development and field testing	4.3
Incentive grants to school boards for the purchase of microcomputers	96.9
Educational software	24.9
Other direct expenditures	4.9
	131.0

These expenditures do not include purchases by school boards of computers or software not sponsored by the Education Centre.

SUITABILITY OF COMPUTERS SELECTED

Overview

According to the Ministry, the ideal educational microcomputer had to impose the fewest possible limitations on the educational quality of the software; be capable of supporting a student's personal, creative exploratory use; be powerful enough to be used easily by young children; and, be usable as an independent microcomputer or in a network of linked machines. Consequently, it had to be a microcomputer with graphics and voice synthesis capabilities that could run a stated group of languages.

An Ontario-based company received a grant of $2 million from the Ministry of Industry, Trade and Technology to develop the required microcomputer. The Ministry of Education guaranteed an order for $8 million if the resulting microcomputer successfully met its ideal requirements.

In April 1984, the ICON/LEXICON system was approved to become the first Grant Eligible Microcomputer System (GEMS). Due to parts shortages, the first of these computers were not delivered to schools until early 1985. Late in 1985, IBM also brought forward the EDNET system for testing. It was approved as the second system in early 1986.

Unique Design Has Added to Costs and Delayed Implementation

Schools that had already acquired computers and educational software could not run this software on the GEMS.

The unique features of the approved microcomputers made them incompatible with others on the market. To compound the problem, the ICON/LEXICON system is incompatible with the IBM EDNET system. This has delayed acceptance and use of the computers in schools and added to the cost of implementation. For example, the Ministry spent $260,000 to translate just five software programs developed for the ICON so that they could be used on EDNET.

In addition, **since software developers were not interested in writing programs for such a select market, further costs and delays were incurred** as the Ministry provided funding to the private sector to develop appropriate software. Despite this effort **there are still significant curriculum areas for which there is no available software.**

Less Costly Alternatives Exist to Meet Board Needs

The Ministry has continued to support Government objectives to encourage the development of a domestic-based manufacturing industry by requiring that 60 per cent of the selling price of GEMS be "Canadian content". This Canadian content requirement has discouraged flexibility in reducing the price of computer equipment.

The trend in the marketplace has been for computers to offer increased capabilities at ever decreasing prices. Although the price of GEMS has decreased since their introduction, these declines have been much less than industry experience generally. Thus the GEMS have become an increasingly costly alternative for school boards.

Decisions regarding the procurement of computers, software and their integration into classroom activities ultimately rest with the 182 school boards, not with the Education Centre. **To encourage the purchase of expensive, albeit more powerful GEMS, the Ministry provided incentive grants averaging 75 per cent of the cost. This made it cheaper for boards to buy GEMS even when in some situations less sophisticated machines would meet board needs.** However, the fact that **only a few boards have acquired the sponsored systems once their grant funds had run out** clearly indicates that on a cost-for-value comparison, GEMS were perceived by boards as being overpriced. A significant factor contributing to this perception is that **it was not until early 1987 that two software programs were released that required the full capabilities of the GEMS.**

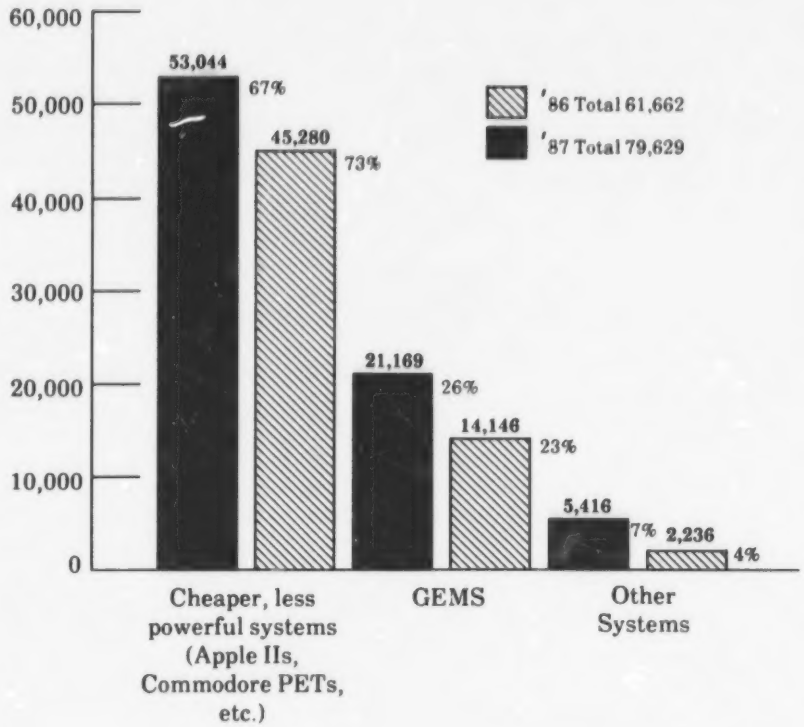
Another factor in the buying decisions of boards is the shortage of computers in general. Almost all boards surveyed stressed that shortages of computers are holding them back. Many of them are still buying at least some cheaper, less powerful systems to help increase their computer inventory more quickly.

Some boards have pursued alternatives despite the Ministry's funding assistance for GEMS. For example, a school in Milton has arranged to obtain up to 100 free microcomputers from a non-sponsored vendor over a four-year period with the intention of integrating the computers, the software and Teacher training into the curriculum. The vendor hopes to develop a good implementation plan to promote commercial success of their products. Such mutually beneficial arrangements with the private sector should be explored further.

In light of such alternatives, many boards expressed the wish that the Ministry also support computers and software of other common vendors. As indicated by the following chart, there are many different computers and software already in

schools. It is, therefore, unlikely that the Ministry will ever achieve its original objective of complete standardization of computers. Hence the compatibility problem will remain.

Inventory of Microcomputers in Ontario Schools



The high cost of providing special grants to encourage purchases of the sponsored Microcomputer Systems also has significant implications for the future. The Ministry expects to achieve a 1:7 ratio of computers to students by 1996, (about thirty minutes of access time per day) with a ratio of 1:10 in GEMS and the remainder in less powerful micros. **For current enrollment, some 160,000 more computers would be required to achieve this long-term target. We estimate that computer costs alone will be at least $650 million to achieve a 1:10 ratio in GEMS at current prices.**

In order to make the most cost-effective decisions on what computer equipment to buy, boards need more objective assistance from the Ministry. Boards could then obtain a more economical mix of less costly, less powerful micros with more expensive, more powerful computers, including the GEMS. Also the Ministry should review its present funding policy for computers and software with a view to ensuring it encourages the best use of tax dollars.

Education

Computers in Education Initiative

Student Access to Computers Varies Widely among School Boards

Given limits to funding, encouraging the purchase of more expensive computers will continue to limit student access to computers. In 1986, there was one computer for every 29 students. This means each student had, on average, only ten minutes per day with a computer. In 1987, the ratio improved to one computer per 23 students, which provides about fifteen minutes per student per day.

However, the current ratio of 1:23 is misleading, **since access is not evenly distributed throughout the educational system.** For example, boards have tended to allocate most of the computers to secondary schools, and particularly to computer studies. A student not taking business, technical or computer studies may never use a computer throughout high school.

Elementary usage tends to be in a wider variety of curriculum areas, in accordance with Ministry guidelines, but the overall average ratio here is worse at only 1:28 (only 10 minutes per student per day).

Research has indicated that even very young children can benefit from exposure to computers and that the younger they are when they start, the more likely they are to be completely comfortable with using the technology.

Industry Development Objectives Not Met

Originally, the hardware and related operating systems for GEMS were developed and produced domestically. However, while the fileserver is made in Ontario (about 500 units annually), the ICON workstations are now made entirely in Korea.

Recently, at IBM's request, the Ministry, in conjunction with the Ministry of Industry, Trade and Technology, changed the method of determining Canadian content such that, in future, vendors may move all production out of the province without danger of losing their status as manufacturers of the GEMS, provided they still maintain a Canadian presence. Accordingly, the establishment of an Ontario manufacturing base is unlikely.

In addition, the ability of the GEMS to significantly penetrate the educational marketplace outside the province is dubious. Although Quebec and a few states in the U.S. (such as Maryland) are testing ICONS, none has committed to any large purchases yet. Manitoba and Saskatchewan are buying some for school use, but again no major commitments have been made.

Growth prospects for software development are much the same since developers would prefer to create software with much larger market potential, regardless of the assistance received from the Ministry.

Comments on Ministry Audits

As the recent Report of the Premier's Council stated: "because insufficient attention was paid to developing specifications for the hardware and software to enable it to be sold outside Ontario, and because no software firms were developed of a scale sufficient to serve export markets, the entire development effort was a botched opportunity for the Province".

SOFTWARE DEVELOPMENT AND LICENCING

Overview

By 1996, the Computers in Education Centre hopes to have distributed several hundred programs, either by developing them specifically for Ontario or by procuring available commercial programs through licencing arrangements. As of May 1988, there were 115 pieces of software available for GEMS. However, due to changes in technology and curriculum , the average useful lifespan for educational software is about five years and accordingly new programs will constantly be needed.

The Ministry has paid the full cost of software development and obtained licences to use the software across the province. The developer retained all other rights to the product. Typically, software developers were invited to bid on proposed programs. If a good product is developed and broad usage results, the unit cost to Ontario can be significantly less than the cost to acquire licences for commercial software. Furthermore, such software can be tailored to meet the specific needs of the Ontario curriculum.

Some Good Software Developed

The general consensus from our survey of school boards was that the quality of Ministry-developed software has significantly improved and is good in most categories. **Over 60 per cent of Computer Co-ordinators in our survey felt that the software distributed was generally of good or excellent quality. Ninety per cent thought the software was at least average.** The 1987 Minister's Council on Educational Technology report also recognized that "some good quality software specific to the Ontario curriculum has been developed".

Some Development and Licencing Efforts Poorly Planned

Approximately $2.1 million has been spent on development projects which were never successfully completed. As well, early software development efforts were haphazard because of the emphasis on hardware, lack of experience in software development, and time pressure to provide software for GEMS. As a further consequence, in order to create goodwill with the early software developers, the Ministry was lenient regarding product delivery.

Despite the inevitable problems associated with the development of a new initiative, **some efforts have been wasted because the needs and priorities of schools were not properly assessed at the planning stage.** For example, the Ministry has spent over $2 million in licencing fees for programs for the ICON

without properly assessing need. These programs translate students' programs into computer language. They are used primarily for computer studies at secondary schools. However, the Ministry continues to purchase the licences for all ICON sites, even though 44 per cent of ICONs are in elementary schools. In fact, staff at elementary schools often erase the programs to free space in the fileserver for other programs. The cost of providing these programs to elementary schools has been over $800,000 to date.

In another case, by rushing to meet demand, **the Ministry released a defective piece of spreadsheet software for the ICON.** Staff at 14 of 20 school boards visited complained about the quality of this spreadsheet. One Computer Co-ordinator called it an "abomination" while one Director of Education said that it was "frustrating and jeopardizes the entire initiative". Despite such reactions, the Ministry arranged to obtain licences to use the software on the EDNET system and continues to pay for site licences for each new EDNET system placed in a school.

Significant Delays in Approving Projects

An examination of 27 software development contracts approved after April 1986 revealed that:

- only eight projects took under six months to approve after submission;
- 15 projects took between 6 and 12 months to approve;
- four took over a year to receive approval; and
- one of the contracts did not receive approval for 21 months.

The Education Centre has not examined why the proposal submission and approval phase takes so long. However, **the objective of creating an Ontario educational software development industry is seriously jeopardized by excessive delays in approving proposal submissions for new software.** Officials of the Software Development Assistance Centre warned in their 1987 annual report that experienced developers would be lost because of delays and uncertainty. As experienced developers are lost, quality will decline and the time required to develop new projects will lengthen.

Field Testing Ineffective

Field testing represents between 15 and 20 per cent of the cost of a project and is supposed to ensure that a product is relatively error free and the content is suitable for release. This is essential if the programs are to be accepted and used in schools.

In accordance with an agreement, TVOntario is responsible for the final screening of software prior to its release, for duplication of the software, and for distribution to the school boards.

Between November 1986 and March 1988, TVOntario received 60 educational software programs, all of which had supposedly been field

tested. They assessed only one as being ready for release to school boards. The other 59 programs were returned to developers for correction of errors. Some took months to correct and a few were still flawed when resubmitted.

Two Computer Co-ordinators in our school board survey complained about errors in the educational software they received. One noted that "damage has been done to the Ministry's initiatives due to the lack of quality control".

More Involvement Required in the Acquisition of Commercial Software

Despite no Ministry funding for the purchase of commercial hardware or software, 74 per cent of the microcomputers in use in schools were not GEMS. A recent study of 45 of the 182 Ontario school boards revealed that expenditures for commercial software had risen dramatically, from $236,000 in 1982/83 to $2.0 million in 1985/86.

Furthermore, all of the Computer Co-ordinators and 70 per cent of the Principals and Directors of Education we surveyed believed that the Ministry should attempt to obtain licences for more commercial software, particularly since they felt that the commercial software was comparable to the quality of much of the GEMS software. Even though 35 per cent of the respondents felt that the quality of commercial software varied considerably, some pieces were considered excellent. In the words of one Computer Co-ordinator, "you can always find software to fit the curriculum". Many boards believe the commercial educational packages that they are using have enhanced learning and can be updated readily as new software becomes available.

The Education Centre has already acquired or attempted to acquire certain existing programs under licence. A major limiting factor has been the desire to have software developed in Canada by Canadian authors. However, the Ministry has had some recent success and was attempting to acquire the rights to use certain software from the Quebec Ministry of Education.

With three quarters of the computers presently in schools not being GEMS, we anticipate schools will continue to make significant purchases of commercial educational software. The Ministry, in recognizing this, should routinely assess and inform school boards about the quality and curriculum suitability of packaged commercial software. Greater Ministry involvement may also reduce licencing costs.

IMPLEMENTATION

Overview

School boards are encouraged to have resource personnel consisting of board Co-ordinators and Teachers, who act as Site Administrators, to help Teachers set up equipment for class use, provide information on computer software, and offer training in the use of microcomputers and the integration of software into the curriculum.

Education
Computers in Education Initiative

Insufficient Emphasis on Implementation

The best examples of computer use in schools we visited were the direct result of the initiative and enthusiasm of a few individuals in those schools. However, **a number of significant factors have served to limit the ability of the school boards and the Ministry to effectively implement the initiative,** including:

- The availability of funds. Funding for implementation activities has been limited to approximately one per cent of total funding for the program ($1.3 million up to 1987/88).

- Inadequate support materials for developed software. In our survey 75 per cent of Computer Co-ordinators and 60 per cent of Teachers indicated that the support materials included with the GEMS software were poor and, consequently, were seldom used.

- A lack of knowledge at the board and school levels of effective ways of providing training, implementation activities, and the most effective uses in the classroom.

- Insufficient technical support to handle the more complex computer-related problems or even minor repairs. For example, one board with some 5,000 microcomputers had only one Technician for the entire board. On average, 17 per cent of its networks were inoperative at any one time, leading to user frustration with the system.

Future progress depends on more being done to utilize already purchased equipment and materials. To that end, the Ministry has recently taken positive initiatives, for example:

- Lighthouse Projects and Regional Pilot Sites were created in selected school boards to improve implementation procedures and to illustrate some best uses for the computers. Approximately $900,000 has been devoted to this initiative.

- In accordance with the November 1987 Speech from the Throne, a draft submission has been prepared requesting $6 million over three years in support of both Teacher training and ways to assess implementation strategies and practices.

Teacher Training Support Inadequate

Successful implementation depends on Teachers being comfortable with the technology. Until very recently the Ministry has held the view that, as professionals, Teachers must take responsibility for maintaining professional competence. **Only $72,000 had been spent by the Ministry for Teacher training. Considering that there are 89,000 full-time Teachers in Ontario, this works out to less than one dollar being spent on each Teacher.**

Much more has been spent by the Province's 182 boards but efforts to date have not been very systematic or comprehensive. Most of this training has been provided through publicly available courses and in-house workshops. **These courses and workshops are taken voluntarily, often at the Teacher's own expense and are not necessarily directed towards the educational environment.**

Our review of these sources of professional development revealed that **professional development policies vary widely among school boards. Furthermore, courses are not offered everywhere in the province and most local course instructors are unfamiliar with the GEMS and the Ministry educational software.**

A further impediment is the lack of portability of GEMS. Without portable machines and diskettes, it is more difficult for Teachers and students to practice at home and become more comfortable with the technology.

One result of the foregoing is that few Teachers have experience with commonly used educational software. As well, **90 per cent of all respondents stated that they used the software programs only as a supplement to their lessons** despite Ministry intentions that it be an integral part of the lesson.

Given limited funding for implementation activities, an effective and affordable Teacher training model needs to be developed with leadership from the Ministry and commitment from the boards. We recommended that the model concentrate on training those Teachers who are most likely to benefit and will, in turn, help and influence the training of their colleagues.

More Effectiveness Research Required

Although there are various opinions on the ability to measure learning outcomes, there are already some indications of the impact of computers. It is clear that when computers are accompanied by effective educational software, a student's motivation to learn increases greatly, as well as his/her self esteem. This was particularly true for students with below average ability.

In addition, there are other beneficial aspects of computers:

- the creation of special opportunities for the academically gifted;
- the improvement in enthusiasm for school;
- special opportunities for the learning disabled; and
- students working independently, yet helping others with questions.

To quote from a leading educational journal, the Canadian School Executive, **"if the computer is to justify its considerable costs, educators must have confidence that some growth is occurring which would not otherwise have evolved using traditional methodology". We anticipate additional research will be required to address these and other planning decisions.** However, we noted a recent study which stated that "funding has not previously been allocated to allow the type of research required to support effective long-range planning".

Education

Computers in Education Initiative

Critical Decisions Needed Now

Since its formation in 1983 the Computers in Education Centre has made many decisions in pursuit of its long range goal of providing every student with 30 minutes of computer time daily. There has been some success but full implementation in all schools is still a distant goal. Towards that end, the Government has recently promised significantly more funding for computers, software and implementation activities. Consequently, we believe that **the initiative has now reached a critical stage where further strategic decisions are required.** These decisions must take into account not only the current problems but also the constraints imposed by previous decisions.

RESPONSE

The following response was received from the Deputy Minister of Education on October 13, 1988.

SUITABILITY OF COMPUTERS SELECTED

Unique Design Has Added to Costs and Delayed Implementation

"The Ministry has moved to address the incompatibility issue through its recent policy announcements concerning the Software Portability Environment and the Stage 1 specifications for G.E.M.S.. Delay in the initial delivery of software to schools was unavoidable due to the time required for software development. There was also a lack of commercial software designed specifically for educational purposes. Presently, however, there are some 130 software programs available for use on G.E.M.S., with an additional 60 under development."

Less Costly Alternatives Exist to Meet Board Needs

"..., it is not within the Ministry's mandate to set Canadian Content guidelines, but rather, the Ministry has merely adhered to Government policy in this area, as determined by the Ministry of Industry, Trade and Technology. Canadian Content guidelines as they apply to software, as with other learning materials such as textbooks, are set in keeping with the Ministry's responsibilities for Ontario curriculum.

"The Ministry would concur with the Provincial Auditor that school board acquisition of G.E.M.S. was driven by the subsidy proffered. This, however, was by intent: a powerful machine was necessary in order to allow students to work with truly educational software, software which required a more powerful and sophisticated machine than the 8-bit computers prevalent at the time.

"The cost of a typical G.E.M.S. workstation is comparable to similarly equipped brand name microcomputers (i.e. with colour display, mouse, networking, operation system, warranty, etc.). The Ministry's incentive grants are intended to influence board purchasing decisions in favour of G.E.M.S. technology and away from soon-to-be obsolete 8-bit technology. The grants serve the function of orienting boards towards more sophisticated technology in their long range implementation planning. The grants do not, however, preclude board purchases of 8-bit microcomputers for those educational purposes appropriately served by such technology, such as basic word processing.

Comments on Ministry Audits

"With respect to the development of software for these machines, the majority of software developed since 1986 takes full advantage of the advanced features of G.E.M.S., and indeed, must do so in order to meet one of the criteria upon which a funding decision is based.

"Mindful that research in terms of 'ideal' numbers of computers necessary to support educational goals is as yet more suggestive than definitive, the Ministry is not looking to achieve a hardware objective as such. Rather, the Ministry has directed attention towards software and implementation objectives that support the appropriate use of the technology to enhance learning opportunities for Ontario students. While hardware will still be required to achieve these objectives, a hardware target is no longer an objective."

Student Access to Computers Varies Widely among School Boards

"The Ministry was also conscious of the varied access problem, and when technological advances allowed, moved to address this concern with the revision of the requirements under which microcomputers become grant-eligible."

Industry Development Objectives Not Met

"The Ministry recognizes the desirability of fulfilling industrial development objectives for the Province. To this end the Ministry has made a concerted effort to incorporate prevailing and emerging international standards within the revised Stage 1 specifications for G.E.M.S., consulting with the Ministry of Industry, Trade and Technology, and hardware and software vendors, prior to the release of these specifications.

"Within its mandate, however, the Ministry must focus on the Ontario educational community its primary constituency, to whom it is ultimately responsible for providing program and policy direction derived from educational imperatives. Within this framework every attempt is made to reconcile industrial development objectives with educational objectives, where the two spheres overlap."

SOFTWARE DEVELOPMENT AND LICENCING

Some Development and Licencing Efforts Poorly Planned

"A needs assessment policy has since been developed and implemented in order to provide more effective decision-making and to ensure value for money."

Significant Delays in Approving Projects

"Approval procedures are being reviewed and streamlined to be more efficient and effective. However, the contract approval process will continue to be governed by the (Computers in Education Centre's) mandate to ensure fiscal and curriculum responsibility in the approval of software proposals."

Education

Computers in Education Initiative

Field Testing Ineffective

"Existing field testing and internal software review procedures have been refined to address the need for improved quality control. . ."

More Involvement Required in the Acquisition of Commercial Software

"In May 1988, the Ministry initiated a three-year program, totalling $13.9 million, to provide funding to school boards for the acquisition of commercial software. This initiative will be monitored to determine the extent to which acquisition funding can replace development funding. Preliminary analysis of board acquisitions under this program suggests, however, that there continues to be a paucity of commercial curriculum-rated software for school use.

"A recent re-structuring within the (Computers in Education Centre) will place a greater emphasis on determining the most effective types of educational software, and the Ministry will be exploring opportunities to use alternative financing arrangements for software development as the industry matures."

IMPLEMENTATION

Insufficient Emphasis on Implementation

"To meet these needs, three Regional Pilot Test Centres have been established in Kingston, Ottawa and London. These are research-oriented and longitudinal in nature (three years). The research reports, when received by the Ministry, will be disseminated to all school boards. These reports should serve as a solid foundation upon which school boards can develop and implement their own programs.

"The Regional Centres are cooperative endeavours among a school board, a faculty of education, and the Ministry."

Teacher Training Support Inadequate

". . ., the Ministry would agree with the Provincial Auditor that in-service to teachers has not been emphasized during the period 1982-1986. This was a conscious decision, in that there were too few machines available, and too little software developed to justify a major effort in this regard in terms of both value for money and program efficiency.

"Since 1986, however, both hardware and software have become available in sufficient quantity to argue for more action in this area. Local programs offered by school boards are encouraged and supported through the Ministry's Regional Computer Advisory Committees. Additional Qualification courses continue to be offered by facilities of education and school boards, and a $6 million Cabinet submission on teacher training has been developed to address the need for greater Ministry involvement in this area."

Comments on Ministry Audits

More Effectiveness Research Required

"The Ministry is in agreement with this finding."

Critical Decisions Needed Now

"The Ministry recognizes that the initiative has reached a critical stage where further strategic decisions are required, particularly in the areas of research and directives given to school boards."

3.7 Weak Controls over Water and Sewage Treatment Plants, Ministry of the Environment

There are 466 water treatment and 407 sewage treatment plants in Ontario which are designed to protect public health and the environment. The Ministry operates 99 water and 238 sewage treatment plants while the remainder are operated by municipalities.

Expenditures for the Ministry-operated plants during the 1988 fiscal year totalled $74.5 million (Vote 1404, Item 2). This cost is recovered from municipalities.

SUMMARY

SCOPE AND OBJECTIVES

The audit was carried out at the Ministry's Corporate Office in Toronto and at its Regional and District Offices throughout the Province. Several plants were also visited to obtain an understanding of their operations.

We assessed whether satisfactory procedures were in place at the Ministry to ensure that water and sewage were treated in accordance with Ministry requirements, and whether appropriate information was available to management and the public on the quality of both drinking water and water returned to lakes and rivers through the sewage treatment system.

CONCLUSIONS AND FINDINGS

CONTROLS OVER WATER AND SEWAGE TREATMENT PLANTS

The Ministry's monitoring and control procedures to ensure water and sewage were treated in accordance with Ministry requirements were weak. Furthermore, there was incomplete information on the quality of both drinking water and water returned to lakes and rivers through the sewage treatment system.

- **Most water and sewage treatment plants were not regularly inspected by Environmental Officers to ensure compliance with legislation and Ministry requirements.**

- **Sewage treatment plants reported that approximately three per cent of sewage bypassed normal treatment and flowed into lakes and rivers.**

Environment

Water and Sewage Treatment Plants

- **The Ministry reported that 281 of the 407 sewage plants met the general Ministry requirements for sewage treatment in 1986. Had the more stringent requirements set out in the Certificates of Approval for some plants been considered, fewer than 281 plants would have been identified.**

- **There was no report available to management and the public on whether water treatment plants met the Ministry's health and aesthetic (for example, taste and colour) requirements.**

OTHER MATTER

Our limited review of the new Drinking Water Surveillance Program indicated that its implementation was progressing in a satisfactory manner.

COMMENTARY

Background

Generally, the larger municipalities operate their own water and sewage treatment plants, whereas in most smaller municipalities that lack the required engineering expertise, plants are operated by the Ministry.

The statutes which govern the operations of treatment plants are the Ontario Water Resources Act and the Environmental Protection Act. The Ontario Water Resources Act requires that a Certificate of Approval be issued by the Ministry upon the construction of or addition to a water or sewage treatment plant.

Sewage treatment plants process sewage to meet the general Ministry requirements for treated sewage leaving a plant. However, in some cases, plants must meet more stringent requirements set out in Certificates of Approval. These stricter standards would apply, for instance, where water from treated sewage could easily impair the receiving body of water. Both the general and specific plant requirements set quantitative standards by which the level of organic material and phosphates in treated sewage are determined.

Water treatment plants remove impurities from drinking water so that it meets the Ministry's health and aesthetic (for example, taste and colour) requirements. The quantitative standards for these requirements are available to the public in "Ontario Drinking Water Objectives".

The Ministry has several mechanisms to monitor water and sewage treatment. These include: analysis of samples taken at the plants; inspections by Regional Environmental Officers; and, Corporate reports on plant activities. In addition to these mechanisms, there is the relatively new Drinking Water Surveillance Program which monitors toxins and some basic contaminants in drinking water.

Comments on Ministry Audits

CONTROLS OVER WATER AND SEWAGE TREATMENT PLANTS

Inspections by Environmental Officers Not Conducted

There are 163 Environmental Officers in the Ministry's Regional and District Offices. These Officers, in addition to many other responsibilities, conduct formal inspections of both Ministry and municipally-operated plants. Environmental Officers have the power, under the Ontario Water Resources Act, to conduct inspections at any time. The purpose of these inspections is to ensure compliance with legislation and Ministry requirements. These Officers have the authority to lay charges for non-compliance with legislation.

Environmental Officers were expected to complete a report form for each plant inspection and to give copies to the Regional Manager. The inspection form for sewage required that independent samples be taken with the results compared to standards established by the Ministry. Other matters to be reported included information on flows, sludge quality, the disposal process, general housekeeping of the plant, data submission, record keeping, and other general comments and recommendations.

Similarly, the water inspection form required that independent samples be taken to ensure compliance with established Ministry standards. In addition, information was required on plant capacity, flows, quantities of disinfectants and fluoridation, housekeeping and the Officer's comments and recommendations.

During our visits to the Ministry's six Regional Offices we found that **most treatment plants had not been inspected in at least two years.** Water treatment plants were inspected in only one region and sewage treatment plants were inspected in only two regions.

The regions which did not perform regular inspections indicated to us that if there had been a serious problem with the treated sewage or drinking water, they would have taken appropriate action. However, this action would only have occurred after they were informed of the problem by the Ministry laboratory. **It is imprudent to restrict inspections to situations where problems have already been identified, since the purpose of regular inspections is primarily preventive and protective.** In one example, which illustrates the importance of regular inspections, an Environmental Officer noted a pesticides tank being stored over a grate, directly above outflowing drinking water. As a result of the visit, corrective action was taken to eliminate the danger of a leak and the potentially disastrous consequences. Regular inspections are essential for the Ministry to ensure that plants are properly maintained to enable them to continue to meet treated sewage and water quality standards.

We recommended that Environmental Officers conduct in-depth inspections of all water and sewage treatment plants at least annually. Furthermore, we believe it would be advisable to supplement these inspections with periodic informal visits particularly to plants identified as having problems in the past. All inspections and visits should be documented to assure management of the work performed and to record matters that require follow-up. This would be especially helpful if the follow-up has to be done by a different Officer.

Environment

Water and Sewage Treatment Plants

Sewage Discharged into Lakes and Rivers

Untreated or only partially treated sewage is discharged into the Province's lakes and rivers during moderate to heavy rainstorms, when the plant or sewer system cannot handle the volume. Such discharging of sewage is called "bypassing". Bypassing may cause beaches to be closed, recreational waters to be declared unsafe, and the normal life cycle of plant and aquatic life to be disrupted. It is the responsibility of each plant to report monthly to the Ministry the frequency, volume and duration of any bypassing.

During our review, we found:

- **No regular report was produced by the Ministry's Utility Monitoring Information System (Information System) to inform management about bypassing.** In addition, the Ministry's "Table of Currently Available Reports" did not list a bypass report. We had to request a special computer run from the Information System to obtain a report on bypassing which had been measured and reported. According to this report, **for the 12 months ending December 31, 1986, 75 sewage treatment plants reported 1,400 instances of bypassing and 61 million cubic metres of untreated and partially treated sewage. This represents approximately three per cent of the total volume of sewage treated.**

- All measured bypassing occurrences were not being reported to the Information System. In one region, we examined five plant files and found information on seven instances of bypassing, totalling 5.6 million cubic metres, which were not included in the Information System.

- Bypasses occurring in the sewage collection system, that is prior to the sewage reaching the plant, were generally not being measured and reported to the Information System.

- When bypassing occurred, some of the plants did not include samples of outflowing sewage taken during these times in their final, reported samples, while other plant operators expressly avoided sampling during bypassing.

- The published Discharge Report provided information on the ability of plants to meet Ministry requirements for treated sewage under normal circumstances when bypassing had not occurred. To show a complete picture of the quality of water returned to lakes and rivers, the Report should also have included information on occurrences of bypassing.

- Bypassing is an offence under the Environmental Protection Act if bypassing is considered unnecessary and will cause, or will be likely to cause, adverse effects. The Ministry did not, however, have definitions of "necessary bypassing" and "unnecessary bypassing" to aid in the determination of whether an offence had occurred.

  The Ministry was also of the opinion that bypassing is not a spill under the Environmental Protection Act, where the bypassing is "normal". In this

regard, they considered bypassing to be "normal" where its occurrence is the direct result of rainfall or spring thaw conditions. We noted that in one particular instance where bypassing was considered to be abnormal by the Ministry, legal action was taken against the municipality involved for failing to report its occurrence.

We recommended that:

- All measurable occurrences of bypassing be reported to the Information System and be reflected in the Discharge Report.
- A consistent practice be adopted for sampling during bypassing occurrences.
- Clarification be made of the meaning of "unnecessary" bypassing in order to enable a consistent determination of when an offence has occurred.

Without adequate information on the extent of bypassing of untreated and partially treated sewage, the Ministry is unable to determine the effect of bypassing on the environment and, therefore, is unable to take appropriate corrective action to prevent or minimize bypassing in those locations identified as having harmful effects on the environment. The availability of such information is essential to highlight particular sewage works which had a greater need for remedial action.

Incomplete Information Reported

Treatment plants are required to periodically submit samples of both the incoming water or sewage and the outflowing treated water or sewage to Ministry laboratories for analysis. In addition, some plants also periodically perform their own analyses.

The results of testing these samples provide for the identification of incoming pollutants, an analysis of the effectiveness of current physical and chemical treatment, and an analysis of the final outflow to ensure that treatment to remove harmful substances has been appropriate . Plants are immediately advised by the laboratories of the detection of any serious problems so that prompt, corrective action can be taken.

Results of in-plant tests, together with the Ministry laboratory results, are averaged monthly by the plant operators and are sent to the Regional Offices and to the Corporate Office for recording and analysis in the Information System. Summary and exception reports produced are used in the development of health and environmental impact evaluations, and in the planning of programs and funding allocation decisions.

During our review we found that:

- The publication "Report on the Discharges From Municipal Wastewater Treatment Facilities in Ontario" (Discharge Report), which is issued annually to the public, compares sample test results for individual plants,

as reflected in the Information System, with general Ministry policies for treated sewage. However, it does not incorporate the more stringent requirements set out in the Certificates of Approval for some plants. Due to the lack of readily accessible information, we were unable to determine how many plants had additional requirements in their Certificates of Approval.

The most recent Discharge Report (October 1987) **identified that 281 of the 407 sewage plants met the Ministry's general requirements for sewage treatment in 1986. Had the more stringent requirements of the Certificates of Approval been used, fewer plants would have been identified as meeting acceptable standards.** Our review of three plants, which were reported to be in compliance in the Discharge Report, indicated that two of these plants were, in fact, not in compliance with their Certificates of Approval.

- **There was no report on water treatment plants available to management and the public that disclosed the sample test results reported to the Information System.** The publication "Municipal Water Treatment Works in Ontario" (Water Report), which is issued bi-annually to the public, includes information on plant capacity and type of treatment for each water plant. However, **unlike the Discharge Report for sewage plants, the Water Report does not compare sample test results for individual plants with Ministry treatment requirements. In this regard, the Ministry was unable to provide us with information on whether water treatment plants met health and aesthetic treatment requirements as set out in the "Ontario Drinking Water Objectives".**

OTHER MATTER

Drinking Water Surveillance Program Progressing

There is a growing concern about toxic chemicals in water, particularly those that do not readily break down and can accumulate in the tissues of living things to potentially dangerous levels. Probably the best known of these are PCBs and dioxin. The Drinking Water Surveillance Program, established in 1986, was designed to provide readily accessible, reliable information about the levels of these chemicals and some basic contaminants in raw and treated water. Since toxic chemicals are usually found in very small amounts, proper implementation of the Program required sophisticated sampling analysis techniques.

There are 160 different chemicals currently being measured in 46 municipal and Ministry water treatment plants. These plants supply drinking water to about 80 per cent of the Province's population. Eventually, the Program will involve all water treatment plants in Ontario and will provide information on the quality of the Province's source waters as well as the efficiency of the treatment used.

Our limited review of this new Program indicated that its implementation was progressing in a satisfactory manner.

Comments on Ministry Audits

RESPONSE

The Deputy Minister responded to our comments and recommendations on October 13, 1988.

CONTROLS OVER WATER AND SEWAGE TREATMENT PLANTS

Inspections by Environmental Officers Not Conducted

"The Ministry agrees with the recommendation. However, as noted in the 1987 Provincial Auditor's Report, Environmental Officers are also required to handle other abatement work such as spills, industrial inspections and complaints investigations. The Ministry is endeavouring to increase the frequency of in-depth inspections while taking into account all program demands and balancing overall Ministry priorities.

"Inspection follow-ups will continue to occur to the extent resources allow.

"The Ministry will ensure that all appropriate documentation is filed."

Sewage Discharged into Lakes and Rivers

"The Ministry is in the process of ensuring that all bypassing occurrences that can be measured are fully documented and characterized within (the Utility Monitoring Information System) as to quantity and quality. These data shall be reflected in the 1988 Discharge Report.

"The Ministry undertakes to define 'unnecessary' by-passing for abatement and enforcement purposes."

Incomplete Information Reported

"Several compliance reports are currently produced. Once the integration of information systems is complete, the Ministry shall produce a single comprehensive annual report which addresses facility compliance with all water quality objectives."

3.8 Weak Management Practices, Computer and Telecommunication Services Program, Ministry of Government Services

The Computer and Telecommunication Services (CTS) Program provides computer and telecommunication services, and information technology to Government ministries and other authorized, publicly-funded organizations.

During the 1988 fiscal year, CTS incurred expenditures of $97 million and recovered $82.5 million through billings to client users (Vote 1605).

SUMMARY

SCOPE AND OBJECTIVES

In our review of the CTS Program, our audit objectives included assessments of whether:

- management was satisfactorily controlling spending for computer hardware and software acquisitions, and whether these assets were being adequately safeguarded;

- management was adequately monitoring the use of the Ontario Communications Network and whether the services offered were economical and efficient; and, whether

- adequate controls existed with respect to the processing and payment of telecommunication billings.

CONCLUSIONS AND FINDINGS

EDP RESOURCES

Satisfactory controls existed over the acquisition of EDP software and supplies. However, we were unable to assess the adequacy of controls over computer hardware acquisitions as no documentation was available.

Protective controls over the loss or theft of assets were weak.

ONTARIO COMMUNICATIONS NETWORK

Telecommunication services, for the most part, were provided economically and efficiently. The level of service provided by the Network was acceptable and CTS achieved monthly savings of approximately $1 million for the Government. However, CTS monitoring of the use of the Network was weak.

- **New telephone features enable Government employees to access the Network undetected from their home telephones.**

- **There were no regular monitoring procedures to determine whether the Network was used only by authorized users on Government business.**

- **Savings totalling $300,000 a year could be achieved by utilizing the Network for regular, long-distance calls made to areas serviced by the Network.**

- **For the 1-800 service, 44 per cent of the lines reviewed were underutilized.**

TELEPHONE BILLING PROCESS

Internal controls over the payment process for telephone bills were weak.

- **CTS was attempting to recover approximately $1 million in overpayments due to billing errors.**

Comments on Ministry Audits

COMMENTARY

Background

CTS computer services are available to each ministry and certain, publicly-funded organizations. The use of these services is optional and the cost is fully recoverable from each client. As a result, for some years, CTS has experienced competitive pressures from the private sector, particularly in terms of pricing, systems distribution and computer compatibility.

The telecommunication services provided by CTS are a mandatory central service. The CTS' Ontario Communications Network is provided free-of-charge.

EDP RESOURCES

In the 1987 fiscal year, CTS spent approximately $26 million on EDP-related items.

	Amount
Hardware equipment leasing	$19,293,000
Software licencing	5,276,000
EDP supplies (paper, etc.)	1,455,000
	$26,024,000

Hardware Acquisitions Not Documented

No documentation was available supporting the selection of the suppliers for either of two major leases:

- a mainframe computer system; and
- disk storage devices.

Since the value of these leases was in excess of $25 million, we expected to find evidence that sufficient research and appropriate planning had been performed in the selection and installation of such hardware. However, no documentation was available. We were, therefore, unable to assess the process used in acquiring the computer hardware. For example, **the propriety of a $15 million contract awarded to a vendor for computer disk storage devices could not be verified as the submissions from vendors were not available.**

We noted that in a February 1988 report, the Ministry's Audit Branch also had concerns regarding documentation of hardware acquisitions.

We recommended that a central filing system be implemented to control documentation generated in the hardware acquisition process.

Adequate Controls over Software and Supplies

Software acquisitions and annual maintenance fee payments were reviewed and found to be in compliance with Management Board of Cabinet Directives and Ministry policy and guidelines. Existing controls were effective in ensuring that acquisitions and annual maintenance fees were appropriate.

EDP supplies were obtained through the competitive procurement process, and standing agreements between vendors and the Ministry were established for a one-year period.

Inadequate Safeguarding of EDP Equipment

Ministry policy and procedures require that all assets over $500 in value, as well as any "attractive" items, be identified with an asset control tag and recorded in the Asset Control Inventory. Also, an annual inspection is to be conducted to verify that the article is still in the Ministry's possession.

Approximately 730 EDP-related assets were recorded on the CTS Asset Control Inventory, valued at $1.8 million.

We were unable to review the Asset Control Inventory, since the physical locations of the assets could not be readily determined from the list. However, a random inspection of 44 EDP items, such as microcomputer system units, monitors, and printers, revealed that 13 of the items were neither recorded in the Inventory nor tagged. Several other items were recorded in the Inventory but were not tagged. Tests of telecommunication assets revealed similar discrepancies. **CTS management advised that the Inventory was not correct and has not been for some years.**

Protective controls against loss or theft were weak. The room used to store microcomputers and software, as well as other non EDP-related items, was unlocked for the entire duration of our audit. Masking tape had been placed over the door catch so the door would not lock. CTS management claimed that the building lessor would not provide a key.

An inventory of EDP-related items in the storage room was conducted and the value of these items was estimated to be in excess of $50,000.

Security doors were not yet installed to control access to the CTS-occupied floors. One microcomputer, worth approximately $8,100, was reported missing during the course of our audit.

We recommended that CTS correct the deficiencies in asset controls to ensure that assets are adequately safeguarded against loss or theft.

ONTARIO COMMUNICATIONS NETWORK

Overview

The CTS Network Centre manages and operates telecommunication networks which ministries and approved agencies, boards, and commissions use for transmitting voice, data, audiovisual and other types of information. There are over 55,000 telephone terminals connected through the Ontario Communications Network, the province-wide dedicated voice network which links Ontario Government offices and provides low cost telephone transmission for the Government. The system also accesses the public telephone network.

Full Network services are available to users on consolidated telecommunication systems in Toronto, Ottawa, Kingston, Oshawa and Hamilton. This allows the user to call from any Ontario Government office on the Network to any telephone (Government or public) in Ontario, Montreal and Quebec City. In addition, partial Network services are available at other locations to provide access, during business hours, to Government numbers in Toronto.

CTS provides the Network as a central service to its users at no cost. For the 1988 fiscal year, CTS expended $12.3 million to lease lines and equipment required by the Network. Essentially, all other telecommunication costs, except for the Zenith and 1-800 services, are paid for by CTS and are recovered from users.

Substantial Savings Achieved by the Ontario Communications Network

The CTS Network Centre is responsible for ensuring that the Communications Network is providing the proper level of service at a reasonable cost. This is achieved by monitoring both the level of service provided and the number of leased lines to the locations served. Too few lines would reduce the acceptable service level, while too many lines would result in unnecessary costs.

In reviewing the utilization of lines, we were satisfied that an adequate level of service was maintained. Calls placed over the Network are over 50 per cent less expensive than the regular long distance rates, which results in monthly savings of approximately $1 million.

Unauthorized Access to the Network Possible

Unauthorized Access from Home

A number of new telephone systems make it possible for employees to gain undetected access to the Network from their home telephones. This would allow the employee to place personal calls anywhere in Ontario at the taxpayers' expense.

Program management has been aware of this weakness since December 1986, when one of its own employees was found to be abusing the system. However, no action was taken to address the problem until our enquiries.

Program management has indicated that the system feature required to control this will be included as part of all future acquisitions. Also, CTS will examine the feasibility of introducing program changes to existing equipment to prevent such unauthorized access in the future.

Network Vulnerable to Misuse

Approximately 21,000 wallet-sized directories with unique identification codes are issued to authorized Government employees. These are to be used only for conducting Government business. Anyone with a code has toll-free access to the Network from any telephone in the Province.

At the time of our audit in March 1988, there were no monitoring procedures in place to ensure that the Network was being used only as intended.

Program management advised us that there was no evidence of serious abuse of the Network. However, since no monitoring is performed, misuse would not be detected.

We were informed that in the fall of 1984, the Manager of the then Telecommunications Services Branch requested that the Central Switchboard operators record evening usage of the Network by individual users of directories. The request was made to determine whether there was any misuse. Evening and weekend callers must provide their identification code and the name of their Ministry to the operators before a call is placed on the Network.

This was not undertaken because Program management believes their role is strictly that of a service provider and that ministries are responsible for monitoring usage. This includes ensuring that only authorized persons use the Network and that use is limited to Government business. However, since these calls are processed through the Central Switchboard, ministries are unable to monitor such usage.

Since costs are related to usage, we felt controls and checks are necessary to ensure that misuse is minimized. CTS should play the central role in initiating these controls. For example, in our review of Network usage statistics for 15 months ending January 24, 1988, we noted that the average length of a call during Monday to Friday was 3.7 minutes, while the average call length on weekends and holidays was 6.8 minutes, an increase of 82 per cent. While there may be legitimate reasons for the difference, Program management had not performed any follow-up to determine why this was occurring. Notifying ministries would be an effective initial step.

Excessive Use of Regular Long Distance

Users of Government telephones have the option of dialing long distance using the public telephone system or the Network for calls to areas it services. Ministries encourage their staff to use the Network not only because of the savings accruing to the Government, but also because the cost of the Network is paid by CTS. On the other hand, regular long-distance calls are paid by the individual ministries.

For the 1988 fiscal year, ministries spent $3.9 million for regular, long-distance telephone calls.

We reviewed 38 telephone bills with regular long-distance charges at 17 ministries. While in many cases we were satisfied that calls made using regular long distance were for areas not accessible by the Network, significant improvements are still possible. **We noted that 16 per cent of calls were to areas serviced by the Network.** Projecting these results over the total long distance charges, **we determined that the Government could save approximately $300,000 annually by routing these calls over the Network.**

Management informed us that there are important advantages in allowing ministries a choice of whether to use the Network when placing a call:

- If the Network is busy or down for repairs, access to regular, long distance lines may be needed.
- On some of the older telephone systems transmission via the Network can be poor for facsimile or data transmission.

Taking this into account, the following solutions are still possible:

- New telephone systems being acquired are capable of automatically routing any regular, long-distance calls through the Network. Should the Network have problems, calls would automatically be routed, over regular, long-distance lines. In addition, the Network is available 99 per cent of the time.
- Where applicable, pre-recorded messages could be played each time a call is made using regular long distance. The message could inform the caller that the Network services the destination dialed and that use of the Network should be considered.

We recommended that CTS consider these and any other alternatives to maximize the savings possible with the Network.

Public Calls to the Government Inadequately Managed

The acquisition of telephone equipment and services is a mandatory central common service which is provided by CTS. This applies to all Government local and Network voice facilities, including local telephone and intercom systems, inter-city and other telephone networks, mobile-telephone services and related systems.

Nevertheless, some ministries independently provide the public with toll-free, long-distance calling to the Government, utilizing either 1-800 or Zenith services.

While both 1-800 and Zenith services offer similar advantages to the public, there are differences in cost and the amount of detail provided on bills:

- 1-800 is cheaper when there are large volumes;
- Zenith bills itemize each call whereas 1-800 bills only provide total usage; and
- each Zenith call placed has a three-minute minimum call charge.

In our opinion, savings could result if this service was centrally controlled.

To determine potential cost savings, Bell Canada examined the Zenith and 1-800 services used by each ministry. In 1987, Bell approached most ministries using Zenith lines and suggested they convert to the 1-800 service. **For those who**

converted, a savings totalling $180,000 is expected by 1989. However, from Bell Canada's analysis of the remaining unconverted Zenith lines, another $500,000 could be saved annually.

In addition, we examined 28 bills for the 1-800 service (71 telephone lines) that were managed by the ministries. Of these, 31 lines (44 per cent) were significantly underutilized when compared to the number of hours purchased per the contract. While it is appropriate that 1-800 be used in these instances, the number of hours purchased should be decreased.

TELEPHONE BILLING PROCESS

Overview

CTS recovers payments made on behalf of client ministries and it is each ministry's responsibility to verify any charges billed to them for monthly telephone services. Therefore, we only reviewed expenses which were absorbed by CTS.

The most significant non-recoverable costs related to the leasing and rental of telephone lines used for the Ontario Communications Network service. For the year ended March 31, 1988, these lines accounted for $9.7 million of the total $12.3 million cost. There were a total of 1,515 lines on 107 available routes.

Each time a line is installed or removed, the supplier produced a new equipment record listing the lines still in operation and the applicable monthly rates. The next monthly bill should reflect these new charges.

Significant Overpayments of Telephone Bills

We found that the controls over the payment of telephone bills were weak. There was no evidence that equipment records were reviewed and approved by the Network staff prior to payment.

From a sample of paid bills for December 1987 and January 1988, we found that significant errors occurred in the payment for leased and rented lines from common carriers. Specifically, for the 15 routes we reviewed, which comprised 629 lines:

- 11 routes had lines that did not agree with the equipment records provided by the Network Centre;
- the amounts paid for six routes did not agree to information on the equipment records;
- duplicate payments were being made for four lines on one route; and
- lines were being paid for that were not installed while lines that had been installed were not being paid for.

Because of the numerous problems identified, we were unable to determine the total value of errors being made. In addition, several lines did not have up-to-date equipment records available. Therefore, correct charges could not be determined.

CTS was aware of these errors and in two separate claims, was attempting to recover approximately $1 million in overpayments. In one claim for $451,042, monthly payments were made from April 1987 to January 1988, even though CTS management was aware that the particular lines had been removed by March 1987.

In our opinion, the aforementioned problems resulted from the lack of a formal review and approval of individual equipment records. After additions, deletions or changes to lines are made, the Network staff should verify the bills and equipment records before they are filed.

RESPONSE

The Deputy Minister responded to our comments and recommendations on August 22, 1988.

Background

"While telecommunication services are designated as a ' mandatory central common service', only a portion of telecommunication services are provided without cost to ministries. The costs associated with the Ontario Communications Network are funded primarily by CTS; costs for telephone installations, repairs, services and long distance charges incurred by client ministries are recovered from their allocations."

EDP RESOURCES

Hardware Acquisitions Not Documented

"Hardware acquisition awards are made on the authority of Management Board after detailed scrutiny by Management Board Secretariat and review with the Board. All vendor submissions and associated documentation are available during the decision making process to all parties to the decision.

"Currently, a central filing system is being developed with consulting assistance. Appropriate records retention policies will be observed in the design and scheduling of this system."

Inadequate Safeguarding of EDP Equipment

"It is agreed that the accuracy of the asset control inventory for small items should be improved through current updates and validated through periodic physical counts. This will be done over the next year.

"A new card access security system which prevents unauthorized individuals from entering premises has been installed on appropriate doors and is operational."

Government Services

Computer and Telecommunication Services Program

ONTARIO COMMUNICATIONS NETWORK

Unauthorized Access to the Network Possible

Unauthorized Access from Home

"New features on modern digital telecommunication switches have created various exposures to abuses. Certain of these features, such as the ability to 'call forward' incoming telephone calls to home numbers, are being used to improve program effectiveness and 'on call' service. In some cases, access to the OCN during off hours from employee residences may be desirable.

"CTS will work with customer ministries on a continuing basis to limit abuse exposures and to introduce appropriate control and monitoring features as they become available."

Network Vulnerable to Misuse

"A detailed review of monitoring practices and tools will be undertaken with a view to identify improvements that can be made to protect the government from potential abuses, and to provide ministries with information necessary to detect abnormalities. The initial phase of this review is scheduled for completion within six months.

"It is the view of management that ministries must bear the prime accountability for use of telecommunication services by their staff. The modernization of the telephone system will assist in the development of appropriate monitoring technologies. CTS recognizes its responsibility to assist ministries in this regard."

Excessive Use of Regular Long Distance

"It is agreed to encourage ministries to use the OCN through more active marketing and communication initiatives. Information will be sent to clients within a month and periodically thereafter. Other means will be investigated to make clients aware. Clients will be requested to consider automatic OCN routing on their switches where possible. Some regular long distance will continue to be appropriate. The potential savings of $300,000 includes long distance calls that could have been made for the valid reasons cited in the report."

Public Calls to the Government Inadequately Managed

"Zenith and 1-800 services are procured and managed directly by individual ministries. The recommendation that these services and associated monitoring be centralized merits careful analysis, and will be discussed in the coming months with those responsible for telecommunications policy in connection with the role and mandate review currently underway. It seems assured that more savings will be possible when conversion of the government's telephones to digital technology is completed."

Comments on Ministry Audits

TELEPHONE BILLING PROCESS

Significant Overpayments of Telephone Bills

"It is routine to authorize payment to telecommunication carriers promptly to avoid considerable late payment charges. Reconciliation of these invoices follows as customers review their records against invoiced amounts and inventory records are checked. Using these practices, overpayments were identified prior to the audit and appropriate steps were taken to secure repayment. Subsequently, all recoveries have been secured. Temporary assistance has been retained to carefully review all accounts and verify the appropriateness of charges, recognizing new tariff schedules have been introduced, and common carriers have been replaced, thus compounding billing reconciliation.

"The major problem in reconciling invoices is the vast amount of information currently requiring manual review. Automated reconciliation packages will be acquired to address this matter as soon as possible. Network staff will be appropriately involved as well."

3.9
Concerns over Hospital Funding and Performance Monitoring, Ministry of Health

The Ministry provides operating grants to 223 hospitals under its Institutional Health Program.

This funding, in the form of transfer payments, amounted to $5.1 billion in the 1988 fiscal year and represents approximately 85 per cent of these institutions' revenues (Vote 1702, Item 2).

SUMMARY

SCOPE AND OBJECTIVES

We assessed the adequacy of procedures in place at the Ministry to ensure that operating grants:

- were properly processed and paid; and
- were well spent by the institutions.

The audit was primarily conducted at the Ministry but included visits to four hospitals to review information not readily available at the Ministry.

CONCLUSIONS AND FINDINGS

GRANT PROCESSING AND PAYMENT CONTROLS

Controls over the processing and payment of operating grants to public hospitals were found to be satisfactory. However, we had several concerns regarding the funding arrangements:

- **Despite the stated Ministry policy that hospital deficits would not be funded, approximately $33 million was paid to 69 hospitals which had operating deficits in the 1987 fiscal year.**

- **Unnecessary deficit funding may have been provided to hospitals since the financial resources available in the hospitals' Foundations were not taken into consideration.**

- **Funding reductions of at least $10 million over two fiscal years (1985 and 1986) could have been realized by taking into account declining patient activity.**

MONITORING OF PERFORMANCE

Ministry monitoring procedures inadequately ensured that operating grants to public hospitals were well spent:

- **Formal lines of accountability between the hospital Boards and the Ministry did not exist.**

- **Large cost variations between hospitals were not adequately followed up by the Ministry.**

- **Complaints received from the public about care received in hospitals were insufficiently addressed by the Ministry.**

COMMENTARY

GRANT PROCESSING AND PAYMENT CONTROLS

Background

Hospitals are currently funded in accordance with the Business Oriented New Development Plan, which was introduced by the Ministry effective April 1, 1982. Under this Plan each hospital is allocated a specific amount which is to be used for operating purposes. This amount is based on the previous year's funding allocation plus allowances for additional factors, including inflation and new, expanded programs.

Prior to the Plan, surplus funds were returned to the Ministry and deficits were generally funded by the Ministry, either partially or fully, depending on the availability of funds. However, under the Plan, hospitals were to be allowed to retain any surplus on operations but would have to absorb any deficit. Thus, the Plan was intended to change the financial accountability relationship between the Ministry and the hospitals. It was hoped this new funding approach would encourage hospitals to maximize their revenues and achieve reductions in expenditure through economy and efficiency of operations.

Since the introduction of the Plan in the 1983 fiscal year, Ministry funding of the operating costs of hospitals has increased an average of 11 per cent per year to $4.7 billion in the 1987 fiscal year.

Satisfactory Controls

About two months prior to the start of each fiscal year, the Ministry informs the hospitals of their approved funding allocation for the year. The hospitals then submit an operating budget to the Ministry for review. The Ministry's grants are paid to the hospitals in equal amounts, twice a month, based on the approved

allocation. Subsequent to year-end, annually-audited financial statements are sent to the Ministry by the hospitals.

Segregation of duties exists within the Ministry over the processing and payment of operating grants to hospitals. For instance, the functions of the Ministry's Fiscal Resources Branch include the calculation of the allocation of funds to individual hospitals, cash flow calendarization, distribution, receipt and review of hospital budget forms. The Ministry's Finance and Accounting Branch is responsible for the recording and processing of payments to hospitals.

Our tests of these controls did not reveal any significant deficiencies in the processing and payment of grants to hospitals.

Funding of Hospital Deficits

One of the major impacts of the funding philosophy of the Plan was that hospitals would be allowed to retain any operating surplus but would have to absorb any deficit. **The position of the Government was made quite clear in the Legislature on October 28, 1982, when the then Minister of Health informed the House that "we will not accept or pay for deficits incurred in this or future years".**

However, in the 1987 fiscal year, one-third (69) of the hospitals were in a deficit position and approximately $33 million in additional funding was provided on a one-time basis. We were informed by senior management that the Ministry had also paid hospitals for deficits incurred in previous years, but the number of hospitals and amounts involved were not readily determinable by the Ministry at the time of our audit.

The $33 million in deficit funding was allocated to hospitals based on the hospitals' estimated year-end deficits. Our review of 18 hospitals which had received approximately $22 million of this funding, revealed that the Ministry had overfunded these hospitals in excess of $4 million. The actual deficit was lower than that originally estimated by the hospitals. The hospitals were allowed to retain these surplus funds despite the fact that evidence indicated that the Ministry was aware of this situation.

Due to the large number of hospitals which had received deficit funding and the failure of either the Ministry or hospitals to satisfactorily account for all causes of the deficits, the former Minister of Health sent a letter on March 31, 1987, to the Chairmen of the Boards of all hospitals. This letter informed them that a "full review of the system of allocating funds to hospitals and the responsibility and accountability for the expenditure of these funds is in order".

This review was to be carried out in conjunction with the Management Board Secretariat and the Ministry of Treasury and Economics. However, this review had been postponed since the Government's Throne Speech in September 1987 had indicated that a review of the health care system would be performed by a new group -- the Premier's Council on Health Strategy. The Council is to develop a long-term strategy for health care in Ontario.

In addition, we were informed that the Ministry had recently hired seven external consulting firms, at a total cost of approximately $2 million, to perform operational reviews of 22 hospitals which had incurred deficits in previous years. One of the objectives of the reviews was to identify factors that had contributed to the deficits. The consultants had commenced their work and the reports were to be submitted to the Ministry no later than March 31, 1988.

Lack of Consideration of Hospitals' Total Financial Resources

Many hospitals have incorporated a hospital Foundation as a separate legal entity to carry out charitable activities for the benefit of the hospital. Donations received by the Foundation are either earmarked for a specific use or are unrestricted in nature and thereby may be used at the discretion of the Foundation.

Over the years, funds have been transferred from hospitals to Foundations. The Ministry has no objection to the transfer of hospital funds to a hospital Foundation provided that certain conditions are met. For instance, the transfer of funds cannot substantially diminish the operating results of the hospital, in that it cannot lead to or worsen a current deficit position of the hospital. Further, any funds transferred from the hospital could be made available for any future operational needs of the hospital.

In December 1981, the then Minister of Health indicated in a speech to the Ontario Hospital Association that "hospitals, in future, will be obliged to report net income from all sources, including that from related corporations . . . (Also,) Ministry approval will be required to transfer funds out of the hospital corporation to Foundations. . . ".

During our review of 25 of the 69 hospitals which had received deficit funding in the 1987 fiscal year, we noted that, between 1981 and 1987, **11 hospitals had transferred funds on several occasions from the hospital to a Foundation. We were advised that, in all cases, Ministry approval was not obtained for these transfers.**

While the Ministry has established conditions for the transfer of funds to Foundations, **the Ministry neither kept track of the funds transferred nor did it obtain the financial statements of any Foundations. Accordingly, the Ministry was not in a position to determine whether a hospital, which had previously transferred funds to a Foundation, had financial resources available in the Foundation which could be used for hospital operations or deficits.** Therefore, we requested and received Foundation financial statements from 10 hospitals which had received deficit funding. Our review of these statements revealed:

- One hospital, which received $2.5 million in deficit funding from the Ministry, had transferred $3.2 million from its operations to the unrestricted capital funds of its Foundation.

- Another hospital, which received approximately $3 million in deficit funding from the Ministry, had approximately $5.4 million of capital funds in its Foundation, not restricted for any specific use. All donations received by this Foundation were classified as capital. Furthermore, this Foundation charged the hospital approximately $3 million in fees, between 1984 and 1987, for managing apartment residences.

- Another hospital, which received $1.2 million in deficit funding from the Ministry, had approximately $2.1 million of capital funds in its Foundation which were, again, not restricted for any specific purpose. All donations received by this Foundation were also classified as capital.

We acknowledged that some of the funds of the Foundations would be used by hospitals to cover the portion of capital costs not funded by the Ministry. **Clearly, however, had the Ministry reviewed the activities between hospitals and Foundations, as well as the resources of the Foundations, the amount of deficit funding provided by the Ministry could have been significantly reduced.**

We recommended that funding transfers from hospital operations to Foundations be monitored by the Ministry to ensure that the operating results of the hospitals are not substantially affected. Further, in order to determine a hospital's total financial resources, we strongly recommended that the Ministry obtain and review all hospital Foundation financial statements.

Lack of Funding Reduction Despite Decline in Patient Activity

The Ministry's annual allocation to hospitals provides additional funds for an increase in the number of patients treated in each hospital, up to a maximum of two per cent of the Ministry's annual allocation. In the 1987 fiscal year, the Ministry provided approximately $42 million to hospitals for growth funding.

The Ministry bases its funding on the highest growth level achieved by a hospital but does not reduce funding when hospitals experience a decline in activity from the previous year. **Our examination of the growth factor for the 1985 and 1986 fiscal years indicated that about 25 per cent of the hospitals experienced reductions over the previous year. Several hospitals had a decline of more than 2,000 patient-days and, in two cases, the decline was more than 10,000 patient-days.**

We estimated that the Ministry could have reduced total funding by approximately $10 million by taking into account the decline in patient activity. We recommended that the Ministry consider a reduction in funding to hospitals which experience a decline in patient activity.

MONITORING OF PERFORMANCE

Accountability of Hospital Boards to Ministry Needs Improvement

Public hospitals are corporations established under the Business Corporations Act or under other Acts of incorporation and are run by Boards of Trustees,

elected or appointed, pursuant to the Public Hospitals Act. These Boards are responsible for all aspects of hospital operations.

Approximately half of the Ministry of Health's expenditures were directed to hospitals for health care services. With such substantial public financial support of hospitals, taxpayers are entitled to expect hospital Boards to be held accountable for providing an acceptable level of patient care in a cost-effective manner.

But to whom should these Boards be accountable and by what means? To address these questions, we reviewed the legislation affecting hospitals, namely, the Ministry of Health Act and the Public Hospitals Act and Regulations, in addition to other information provided to us by staff of the Institutional Operations Branch of the Ministry.

Clearly, the Minister of Health has the ultimate responsibility for the operations of hospitals including the quality of care provided and the cost-effectiveness of their administration. Recognition of this responsibility by the Ministry is evident from an objective of the Institutional Operations Branch which states that the Branch has the responsibility to hold hospitals accountable for the economic, efficient and effective expenditure of public funds. A performance measurement system designed to meet this objective was in place at the time of our audit. **However, we had major concerns whether the Ministry was properly utilizing the information generated by the system to ensure public funds were being well spent by the hospitals.**

We acknowledged the various accountability initiatives taken by the Ministry such as the development of a *Guide for Comprehensive Auditing in Hospitals* and participation in the development of guidelines for management information systems in Canadian health care facilities. **However, in spite of the various initiatives, legislative requirements, and all of the information provided by hospitals to the Ministry, we were unable to determine precisely the means by which the Ministry exacts accountability from hospital Boards for the prudent use of public funds.** For example, we saw no evidence of reports to the Ministry from the Boards on their review of the causes of trends in costs-per-patient-treated or on actions taken to correct deficiencies noted in Accreditation and Quality Assurance Reports.

We recommended that a clear understanding of the nature of the responsibilities of the Minister of Health and hospital Boards be formally established so that the Boards will be able to provide the Minister with reasonable information on how well they have discharged their responsibilities for quality of care and resource management.

Inadequate Monitoring of Performance Indicators

The performance measurement system of the Institutional Operation Branch is intended to measure how efficiently a hospital provides patient care and to bring about changes in performance.

The Branch is divided into six area teams, each responsible for approximately 40 hospitals. Teams are headed by a senior administrative consultant who is assisted by consultants in hospital administration, financial management and nursing administration. One of the major responsibilities of the financial consultant is to evaluate the efficiency and effectiveness of hospitals. This is accomplished by monitoring hospital financial and performance data, and by advising hospital administrators and Board members, as may be required, on how to achieve satisfactory performance levels.

In order to monitor hospital expenditures, the Ministry established the concept of cluster, or peer groupings, of hospitals whereby similar hospitals were grouped based on the type of services offered and the range of diseases treated. The Ministry organized Ontario's 223 public hospitals into 18 different peer groupings. Using either the annual operating data (e.g. nursing - total cost per total patient-day) received from the Ontario Hospital Association, or the annual operating data (e.g. dietetics - gross cost-per-diem basis) submitted by the hospital to the Ministry, an institution's performance can be compared with other hospitals in its grouping, annually, or over a period of years.

There were a large number of hospitals which had numerous performance indicators significantly higher or lower than their grouping's average. We were informed that much of the financial consultants' time was spent reviewing operating results of hospitals incurring deficits rather than assessing the variances of all hospitals.

Accordingly, we selected 20 hospitals from several groups and reviewed 28 performance indicators from the 1986 and 1987 fiscal years which were at least 10 per cent higher than their respective grouping's average. **For only one hospital was there evidence to show that the Ministry had investigated the causes of the variances. Furthermore, it was interesting to note that two of the selected hospitals had received Ministry deficit funding without apparent investigation of the variances.**

We recommended that Branch supervisory staff ensure that the financial consultants adequately follow-up all hospitals which have performance indicators significantly above or below their group's average. Such analysis would also be useful to the Ministry to periodically reassess the adequacy of its Business Oriented New Development Plan funding to hospitals and to provide information on the uniformity of health care services across the province.

Inadequate Follow-up of Complaints

We estimated that in 1986 and 1987, the Minister of Health received in excess of 2,600 public complaints regarding problems encountered in various hospitals. A large number of these complaints related to the quality of care received. Depending on the nature of the complaint, the Minister took action by either requesting that the Institutional Operations Branch prepare a reply for his signature to be sent to the complainant, or by asking the Branch to take appropriate action. Appropriate action may include requesting the hospital to review and respond to the complainant's concerns and to remit a copy of its response to the Ministry.

Health

Hospital Funding and Performance Monitoring

A complaint file is maintained for each hospital; however, a procedure was not established to ensure that all complaints received were followed up. We examined 45 randomly-selected complaints requiring appropriate action to be taken by the Branch and found:

- **No evidence that 14 complaints had been addressed by the Ministry, several of which we felt were quite serious in nature.** In one case, a patient's appendix was removed to alleviate pain in the abdomen yet the pain persisted after surgery. It was subsequently discovered that the pain was due to an internal infection which was treatable with medication. In another case, a patient was heavily sedated and prepared for surgery before it was realized that the attending surgeon was on vacation.

- **Copies of the hospitals' responses to nine complaints had not been received by the Ministry.** In one instance, a patient had been booked for elective surgery many months in advance. The patient was given all the necessary pre-admission tests and was prepared for surgery on the assigned day. Later that morning the surgery was cancelled and had to be re-scheduled. The cancellation was due to a shortage of nurses at the hospital.

- **A hospital had not responded to a complaint which had been referred by the Ministry. During our visit to this hospital, we could find no record of the complaint.**

Complaints are an indicator to the Ministry of the effectiveness of the quality of patient care provided by hospitals. It is, therefore, important that proper control is maintained over complaints received by the Ministry. We recommended that:

- Consultants maintain a record, by hospital, of all complaints received and how they are being addressed.

- Branch supervisory staff review the actions taken to ensure that complaints are properly followed up.

RESPONSE

The Deputy Minister replied on October 13, 1988 as follows:

GENERAL

"The Minister of Health . . . has publicly committed that the Ministry will take definite steps to clarify areas of responsibility and accountability within the hospital management structure. We also intend to ensure that funding procedures are clear, consistent and fair.

"The Ministry is presently preparing draft regulations which will clarify and enhance hospital boards' responsibility and accountability for hospital budgetary control. We are also undertaking a more comprehensive review of the Public Hospitals Act which will lead to the introduction of new legislation in the fall of 1989."

Comments on Ministry Audits

GRANT PROCESSING AND PAYMENT CONTROLS

Funding of Hospital Deficits

"An evaluation of the factors and circumstances surrounding the occurrence of the 1986/87 expenditure problems led to the decision to provide additional funding to selected public hospitals. This decision was reviewed by Management Board of Cabinet and additional funding was provided to the hospitals.

"With regard to funding provided to those hospitals whose actual deficits were lower than initially forecast, it was the Ministry's view that the funds were required to meet real working capital deficiencies.

"The Ministry would note that the operational reviews of 23 public hospitals with chronic deficits have been completed. . . ."

Lack of Consideration of Hospitals' Total Financial Resources

"The funds provided to, and held by, hospital foundations are typically designated for capital purposes, often for specifically named capital purposes. The Ministry, therefore, considers it inappropriate to assume that these funds should be used to finance operating costs.

"The Ministry will be taking additional steps to monitor transfers of hospital operating funds to Foundations which will include hospitals providing the financial statements of their Foundations."

Lack of Funding Reduction Despite Decline in Patient Activity

"The issue raised is a complex one. Even though the decline in a utilization indicator such as the number of patient days would seem to point to the conclusion that funding reductions are indicated, changes in case mix acuity, program costs and shortened length of stay may, in fact, have increased costs. The Ministry will be reviewing its hospital operating funding approaches and will consider the Auditor's recommendations within this context."

MONITORING OF PERFORMANCE

Accountability of Hospital Boards to Ministry Needs Improvement

"The thrust of this statement is that hospitals should provide 'reasonable information on how well they have discharged their responsibilities for quality of care and resource management'.

"The Ministry would note that hospitals provide extensive and comprehensive reports on resource management. These include budgetary and actual operating and statistical data on numerous facets of their organization.

"Hospital by-laws are scrutinized and approved by both the Ministry's legal branch and hospital operating branches. As the Introduction to the Prototype Hospital By-Laws state, they form the basis of administration or management of

the corporate activities of the Hospital and are binding on all persons who come within their scope. They are critically important to the proper functioning of the Hospital since they govern the basic legal and working relationship between members of the Corporation, its governor trustees, its Chief Executive Officer, the medical staff organization and the physicians practising in the hospital.

"In the event of a serious problem, the Public Hospitals Act provides for the appointment of an investigator, and where appropriate, a supervisor who would, in effect, become the temporary governing body of the hospital. Nevertheless, the Ministry recognizes that public hospitals are separate legal entities under the Corporations Act. We have found that mutually beneficial relationships between the Ministry and hospitals is the norm. Problems can, generally, be resolved in a mature manner.

"The Ministry would note that the responsibilities for auditing the activities of public hospitals lies with the external auditors. Guidelines to assist external audits have been developed by the Ministry.

"When concerns or exceptional circumstances arise, the Ministry's Audit Branch is used to review procedures, operations and activities of public hospitals. Over the past 8 years, approximately 14 audits of public hospitals have been conducted by the Audit Branch."

Inadequate Monitoring of Performance Indicators

"The Ministry will continue to strengthen the attention given to hospital performance indicators within peer groups and also the indicators which show variances in a hospital's own performance level from one fiscal period to the next. Often these cost variances are not indicative of inefficiencies but reflect unusual operational or functional differences."

Inadequate Follow-up of Complaints

"The Ministry recognizes that improvement is required in this area and is actively examining the ways in which public complaints are dealt with and is developing and implementing measures to strengthen our systems in this area."

3.10 Inflexible Allocation Formulae Warrant Reassessment, Unconditional Grants, Ministry of Municipal Affairs

The primary objective of Unconditional Grants is to ensure Ontario's 839 municipalities have sufficient financial resources to provide the services under their jurisdiction and to reduce the impact of property tax increases on local taxpayers.

For the 1988 fiscal year the Grants totalled $824 million (Vote 2402, Item 1). Increases in Grants to municipalities have averaged approximately 4.5 per cent per year over the past four years.

Comments on Ministry Audits

SUMMARY

AUDIT OBJECTIVE

In conducting our review of Unconditional Grants, an audit objective was to assess the appropriateness of the procedures for allocating Grants to the various municipalities.

CONCLUSION AND FINDINGS

GRANT ALLOCATION PROCEDURES

We questioned whether certain basic Grant formulae, which were established in 1973, have provided the Ministry with sufficient flexibility to address the changing economic conditions of municipalities since that time.

- **The method used to calculate Resource Equalization Grants for resource-poor municipalities should be re-examined.**
- **The Northern Support Grant rate of 18 per cent of a northern municipality's tax revenue warrants reassessment.**

OTHER MATTER

Proposed sharing of infrastructure installation costs for a new automobile corporation site resulted in provincial-municipal conflicts.

COMMENTARY

Background

Under the Ontario Unconditional Grants Act and its regulations, payments are made to municipalities by the Ministry of Municipal Affairs to help offset general operating costs. Grants are used at the discretion of each municipal council as there are no conditions attached to the payments.

Every fall, the Treasurer of Ontario determines and announces the total amount of Unconditional Grants to be allocated by the Ministry to municipalities for the next fiscal year. These funds are allocated by the Ministry to the 839 municipalities based on a number of Grant formulae. While the basic formulae were established by legislation a number of years ago, the Ministry does have some leeway to revise components of the basic formula. Accordingly, each year these formulae are reviewed and, if necessary, revised in light of current and forecasted economic conditions. For instance, certain of the formulae provide funds based on the number of property tax assessments of a particular municipality. Others provide funds for specific purposes such as to assist municipalities in the north or those whose average assessment is below the provincial standard.

GRANT ALLOCATION PROCEDURES

Need to Re-examine Method of Calculating Resource Equalization Grant

In the 1988 fiscal year, the Ministry allocated $123 million in Resource Equalization Grants. This Grant was introduced in 1973 to compensate those

resource-poor municipalities whose average assessments are below the provincial standard established by the Ministry. It is paid to municipalities to enable them to improve service levels without imposing excessive property taxes.

The amount of this Grant is determined by a two-step process. The municipality's average assessment is compared to the established provincial standard ($57,000 in the 1988 fiscal year). If it is less, 60 per cent of the difference is eligible for funding up to a maximum of 25 per cent of the municipality's tax revenue.

At the time the Grant was introduced in 1973, the Ministry had expected that the Grant would have widespread benefits and that a number of municipalities would qualify for it based on their assessments.

A review of this Grant program in 1986 by the Municipal Finance Branch suggested changing the provincial standard from $57,000 to the actual calculated average of $51,000. This would reduce the number of eligible municipalities to fewer than half of the current number that qualify for this Grant, thereby enabling these funds to be directed to the more resource-poor municipalities. However, this suggestion was never implemented.

For the 1988 fiscal year, with the provincial standard of $57,000 still being used to calculate the Grant, approximately 625, or 75 per cent of the municipalities received this Grant. Had the Grant calculations been based on $51,000, we calculated the total Resource Equalization Grants paid out would have been reduced by over $50 million. These funds, or a portion thereof, could have been made available to resource-poor municipalities. **As a result, the Program may be misdirecting its payments by not aiming them solely at resource-poor municipalities.**

This view was also shared by the Association of Municipalities of Ontario whose examination of the Resource Equalization Grant revealed that a large portion of the Grant allocation was misdirected and unsuccessful in meeting its objective.

In view of our observations, we recommended that the methodology used for calculating Resource Equalization Grants be again reviewed by the Ministry.

Need to Re-examine Northern Support Grant Rate

The Northern Support Grant was established in 1973 to reduce property taxes below the levels prevailing in the rest of Ontario. It is paid to all northern municipalities to reduce the financial burden which results from higher costs generally attributed to the northern climate, great distances and isolation of such communities. Total payments for this Unconditional Grant amounted to approximately $76 million in the 1988 fiscal year.

When first established, the rate for this Grant was set at 10 per cent of a northern municipality's tax revenue. By 1977, the rate had increased to its current level of 18 per cent. However, no in-depth analysis was done to support the Grant rate of 18 per cent and whether it accurately reflected the cost differential faced by northern municipalities in providing municipal services.

Comments on Ministry Audits

In comparing property taxes in northern and southern municipalities, we noted that the average residential property tax in northern municipalities ($600 per household) is approximately half that of Metropolitan Toronto ($1,350) and the entire province ($1,100).

In addition, although we found that municipalities in the north annually spend, on the average, about $150 more per household for municipal services than those in the south, we noted that in the 1987 fiscal year, northern municipalities received Unconditional Grants averaging about $525 per household compared to $155 per household in the south. We were informed that the Ministry believed that residents in the north also faced a higher cost of living than the rest of the province and, accordingly, should get a relative advantage in their property taxes.

Based on information available from the Ministry of Treasury and Economics, we reviewed and compared cost of living statistics in northern and southern communities. **Our analysis of the costs of three principal commodities revealed marginal differences in the cost of food and gasoline. Housing prices, however, were significantly higher in southern Ontario,** averaging $195,000 in Metro Toronto, compared to $98,000 in North Bay and $120,000 in Thunder Bay as of December 31, 1987.

Furthermore, information available from Statistics Canada on individual employment income for the 1985 fiscal year revealed that **the difference in average income is marginal between northern and southern communities.**

In view of the foregoing, we recommended that the Ministry review the differential in Support Grants between northern and southern municipalities to ensure that current economic conditions are properly reflected.

OTHER MATTER

Lack of Agreement - Funding of Infrastructure Costs

In December 1985, the Province announced that a Japanese automobile corporation would be constructing an assembly plant on a 400-acre site located in the City of Cambridge within the Regional Municipality of Waterloo. At that time, the Province assured the corporation that the costs for the installation of a municipal infrastructure, such as roads, watermains and storm sewers to service the site, would be shared by the Province and municipalities with no cost to the corporation. Normally, the estimated cost of $22.8 million would be a municipal or the site developer's responsibility.

When the Province approached the municipalities involved with respect to sharing the infrastructure costs, they refused to bear any of the cost because the Province had made the commitment to the automobile corporation without involving them. Furthermore, the municipalities felt that the Province was acting as the site developer and, typically, site developers paid the entire cost of the necessary infrastructure.

Municipal Affairs
Unconditional Grants

The Ministry of Municipal Affairs was subsequently directed to negotiate with the City of Cambridge and Regional Municipality of Waterloo. The Ministry's role was to ensure that both municipalities would make a financial contribution toward the infrastructure costs for servicing the corporation site and that there would be no delay with the plant construction.

In May 1986, the Ministry submitted a proposal to Cabinet for approval. It recommended sharing of the infrastructure costs for the corporation site as follows:

	Phase I ($ Million)	Phase II ($ Million)	Total ($ Million)
Province of Ontario	16.3	up to 10.0	26.3
City of Cambridge	4.4	-	4.4
Regional Municipality of Waterloo	2.1	-	2.1
Total	22.8	up to 10.0	32.8

Cabinet approved the proposal and directed that the costs related to the infrastructure installation be funded by way of grants and loans administered through a cost-sharing agreement. Both the City and Regional portions were to be financed by interest-bearing loans from the Province, repayable when the automobile corporation began to pay property taxes on the plant.

Since then, conflicts have arisen over the sharing of infrastructure costs. Numerous meetings and discussions have taken place between officials of the Ministry and the municipalities. However, both the City of Cambridge and the Regional Municipality of Waterloo have not changed their previous position. They still feel that the Province should pay the full cost of the infrastructure.

In July 1987, an amended proposal was submitted to Cabinet. The revised cost for the installation of the infrastructure was to be apportioned as follows:

	Phase I ($ Million)	Phase II ($ Million)	Total ($ Million)
Province of Ontario	18.7	5.9	24.6
City of Cambridge	2.1	-	2.1
Regional Municipality of Waterloo	2.7	3.2	5.9
Total	23.5	9.1	32.6

Cabinet approved the amended proposal and re-affirmed its earlier decision that the Province and municipalities enter into a cost-sharing agreement. At the completion of our audit field work in March 1988, this agreement, although drafted, had not been ratified by all three parties.

RESPONSE

The Deputy Minister responded to our comments and recommendations on September 29, 1988.

Comments on Ministry Audits

GENERAL

". . . . I appreciate and concur with the general thrust of your recommendations concerning the grant formulas utilized to allocate the Unconditional Grants to municipalities . . . the Minister has already directed us to undertake a complete review of the Unconditional Grants Program to ensure that it continues to meet the Ministry's and Government's objectives in the most effective way.

". . . It is not clear that there will be any overall savings if revisions are made. The main objectives of sharing provincial revenues with municipalities through the Unconditional Grants are to reduce the burden on the property tax and to stabilize local mill rates. Any significant reduction in funding would be contrary to these objectives. Accordingly, a redistribution of funding may be a more likely result of program revisions."

GRANT ALLOCATION PROCEDURES

Need to Re-examine Method of Calculating Resource Equalization Grant

"When the REG (Resource Equalization Grant) was introduced, it was intended, as a matter of policy, to have a widespread benefit. The 1973 Budget estimated that almost 83 per cent or 748 municipalities would qualify. One reason for the large number of qualifying municipalities has been that assessment in the Province tends to be concentrated in a small number of municipalities. Of the 800 lower tier municipalities, the largest 10 per cent account for more than 80 per cent of the total assessment in the Province.

"Subsequent to 1983, the Ministry revised the REG to eliminate the open-ended nature of the Grant and to distribute it in a more appropriate way. This was achieved by placing a limit on the entitlements to individual municipalities, reducing the level of REG funding to upper tier municipalities, and restricting the increase in the assessment standard. (It was frozen at $57,000 for three years.)

"As a result of these initiatives, the number of municipalities receiving REG was reduced from 750 in 1983 to 609 in 1987, and funding for the REG fell from 28 per cent of the total Unconditional Grants to 15 per cent. These changes improved the distribution of the REG.

"However, the Ministry will be examining the REG in conjunction with its review of the entire Unconditional Grants Program."

Need to Re-examine Northern Support Grant Rate

"The Report claims that there has been no in-depth analysis to substantiate that the different support rates paid to northern municipalities (24 per cent) and southern municipalities (6 per cent) reflect current economic conditions.

Natural Resources
Forest Firefighting

"All municipalities receive a General Support Grant equal to 6 per cent of their levy base. In addition, northern municipalities receive a Northern Support Grant (NSG) equal to 18 per cent. This brings the total support rate in the north to 24 per cent.

"The NSG is viewed as part of the Government's general policy of offering assistance to northern Ontario. Given this priority, the NSG rate has not been reduced.

"However, the Ministry is committed to a re-examination of the levels of support given to the north through the Unconditional Grants Program."

OTHER MATTER

Lack of Agreement - Funding of Infrastructure Costs

"Some municipalities absorb the costs of infrastructure, although many others require developers to pay for the infrastructure required to service their lands. In this case, the Province owned the lands on which the corporation's assembly plant was to be built, as well as considerable additional land in the vicinity. As a result, the Region of Waterloo and City of Cambridge insisted that the Province was the developer and should pay for servicing these lands.

"While industrial development is not the responsibility of the Ministry of Municipal Affairs, the Ministry was subsequently assigned responsibility to establish a cost-sharing agreement with the municipalities. The agreement that was being negotiated by the Ministry dealt with the 400 acres for the automobile assembly plant (Phase 1) and an additional 400 acres of provincially owned land which was adjacent to the plant (Phase II).

"As the figures (in your report) indicate, the Province's share of the total costs for Phase I and Phase II decreased compared to the May 1986 submission. However, its share of the Phase I costs increased slightly because some projects were shifted from Phase II to Phase I. It should also be noted that the figures in the May 1986 submission were preliminary and subsequent refinements were made in accordance with appropriate engineering studies.

"The cost-sharing agreement which Cabinet approved in July 1987 was finalized with all parties in March 1988."

3.11
Improved Cost Controls and Resources Monitoring Required, Forest Firefighting, Ministry of Natural Resources

The prevention, detection and control of forest fires is the responsibility of the Ministry's Aviation and Fire Management and the Extra Fire Fighting activities. Expenditures for both activities for the 1988 fiscal year totalled $79.1 million (Vote 2602, Items 2 & 3).

Comments on Ministry Audits

SUMMARY

SCOPE AND OBJECTIVES

Our review of the Ministry's forest fire detection and suppression operations was conducted at the Aviation and Fire Management Centre in Sault Ste. Marie and three regional fire centres located in the Northwestern, North Central and Algonquin Regions.

Our audit objectives were to assess whether adequate controls were in place to ensure:

- equipment, including aircraft, was being economically acquired; and
- staff and equipment were being utilized efficiently.

CONCLUSIONS AND FINDINGS

ACQUISITION OF EQUIPMENT

Controls over the economical acquisition of equipment were generally adequate. However, we did note that the Ministry's water bombers cannot be cost-effectively serviced as there are inadequate hangar facilities.

UTILIZATION OF EQUIPMENT AND STAFF

Overall monitoring of the use of staff and aircraft needed to be improved to ensure more efficient utilization of these resources.

- **While the Ministry had an excellent policy in place to self-evaluate its firefighting performance, only one region had implemented it.**
- **Fire crews must be allocated more systematically to ensure they are located where they are most needed.**
- **Recurring problems with deployment of fire crews and response times were not being identified and corrected.**

A concerted effort is being made by the Ministry to educate and inform the general public and industry about safe practices when using forests.

COMMENTARY

Background

The Ministry's Provincial Fire Centre located in Sault Ste. Marie along with five regional fire centres are responsible for fire protection and suppression activities. These include planning, priority setting, preparedness, and detection and resource deployment, including equipment and personnel.

In addition, a network of attack bases are strategically located throughout Northern Ontario from which manpower and equipment are dispatched. The attack bases are staffed by fire crews from April to October and are equipped with helicopters and aircraft.

The Ministry's firefighting fleet primarily consists of owned and leased water bomber aircraft, helicopters, detection aircraft and other auxiliary equipment

such as portable water pumps, trucks, etc. The basic firefighting force consists of 170 five-person fire crews. Forty of the crew leaders are permanent staff while the rest are hired on a contract basis from April to October.

ACQUISITION OF EQUIPMENT

Acquisition Controls

In the five-year period ending March 31, 1988, the Ministry expended $146 million on the acquisition of equipment, supplies and services such as the purchase of attack base supplies, water pumps , water bombers and the rental of other aircraft.

Our review revealed that the Ministry's controls over the acquisition of fire-suppressing equipment supplies and services were adequate.

Water Bomber Maintenance Facilities Inadequate

Each of the Ministry's nine water bombers is required to undergo an annual maintenance program. This annual service takes about six weeks. In addition, every six years, each aircraft must undergo a major inspection and maintenance program which takes two to three months to complete.

The new water bombers are much larger in size than other Ministry aircraft and cannot be accommodated in the existing Ministry hangar facilities in Sault Ste Marie. While some space is leased in a privately-owned hanger in Sault Ste Marie, and some maintenance work can be done at a Ministry facility in Timmins, together these facilities are not adequate to allow all of the new water bombers to receive the required maintenance during the winter months.

The Ministry acknowledges that if a fire season should start before at least five of the water bombers are serviced and ready, both increased firefighting costs and fire losses could be expected.

Consequently, the Ministry submitted an application to Management Board of Cabinet in early 1986 for approval to construct a hangar that would consolidate existing facilities in the Sault Ste Marie area and accommodate the new water bombers at an expected cost of $3.9 million. However, approval was not received from Management Board. We understand that re-application for the additional facilities will be made to Management Board later this year.

UTILIZATION OF EQUIPMENT AND STAFF

Lack of Reviews on Major Fires

Ministry policy requires Regional Directors to appoint a Board of Review to inquire into and submit a report on all fires greater than 500 acres (200 hectares) in their regions. The report should document the actions taken and should provide an impartial analysis of general and specific problems in both planning and performance. It should also offer suggestions for future improvement. The

report is to be submitted to the Director of the Aviation and Fire Management Centre for review.

Between the 1984 and 1987 fiscal years, less than 15 per cent of the required Board of Review inquiries were conducted.

Fire Inquiries Required

Year	Fires Greater Than 500 acres	Number of Reviews
1984	17	0
1985	0	0
1986	8	1
1987	21	5
Total	46	6

All five 1987 reviews were conducted by the Northern Region. Certain common issues were reported in the Northern Reviews that we felt would assist management in identifying potential problem areas, including:

- lack of trained staff at fire sites;
- water bombers generally not available when needed; and
- occasional inadequate manpower allocationing, both regionally and provincially.

We recommended that analyses similar to those carried out by the Northern Region in 1987 should be considered for all regions. Furthermore, we recommended that the Aviation and Fire Management Centre analyze these reports to identify common problems and suggest cost-effective strategies which could then be communicated to all regions.

Improved Allocation of Fire Crews Needed

Most of the Ministry's on-the-ground forest firefighting is performed by its 170 fire crews which are allocated among the five regions as follows :

Distribution of Firefighting Manpower

Region	Number of Crews
Northwestern	46
North Central	38
Northern	29
Northeastern	26
Algonquin	31
Total	170

Natural Resources
Forest Firefighting

In the absence of any formalized method of allocating staff by the Ministry, we reviewed the assignment of fire crews to the respective regions to determine whether the regions were adequately staffed to fight forest fires. For the five-year period between 1983 and 1987, we observed that :

- **While 80 per cent of the total hectares burned were in the Northwestern and North Central Regions, they maintain less than 50 per cent of the total fire crews.**

- **Of 726 fire fighters temporarily moved from one region to another to meet fire emergencies, 251, or over 30 per cent of the total, were from the Algonquin Region.**

- Of the regions receiving fire crews, **Northwestern and North Central received 565 crews or over 75 per cent of the total. Algonquin Region was the only area not requiring any outside fire crews.**

- **Sixty per cent of fires in the Algonquin Region were handled by municipal fire crews.**

The short-term, inter-regional transfer of crews is expensive in terms of travel costs and salaries. For instance, the Ministry estimated that the cost of temporarily transferring a crew to another region in the 1987 fiscal year was approximately $5,000 per transfer.

In addition, we felt the current system placed too much reliance on inter-regional transfers, which could contribute to increased fire losses as a result of the extra time required to get crews where they are needed. For instance, **all of the Reviews conducted on major fires in the Northern Region reported on the lack of manpower resources immediately available at the time.**

A 1984 memorandum issued by the Assistant Deputy Minister for Northern Ontario recommended the re-deployment of fire crews so that they are based where needed. **While some re-deployments have been carried out, we noted that the recommended transfer of seven fire crews from Algonquin to the Northwestern and North Central Regions has not been implemented.**

While it is recognized that some inter-regional crew movements will always be necessary, we recommended that the present allocation of fire crews be reassessed.

Inadequate Monitoring of Fire Response Time

When a fire is reported, the Fire Control Duty Officer will consider the vital data, such as the exact location of the blaze, spread potential, wind speed and direction, accessibility, and proximity to water sources. Initial manpower and firefighting equipment resources are then dispatched from the nearest attack base. If several fires are ablaze, the Duty Officer must make decisions regarding which fires require priority suppression and the number of crews and other resources to assign to each fire.

Comments on Ministry Audits

After each fire has been suppressed, a fire control report is prepared which documents the pertinent data such as area burned, fire response time, hours spent on the fire, etc. We reviewed a number of 1987 fire control reports primarily from the Northwestern and North Central Regions to compare the adequacy of fire responses with the Ministry-established response time criteria.

In our review, we noted 36 instances of response times in excess of 15 minutes where Ministry criteria required immediate dispatch of firefighting resources. In 17 of these instances, firefighting crews were dispatched after more than one hour.

Under the current system there was little documentation outlining the reasons for delayed responses to reported fires. In discussions with fire crew leaders, most cited that other fires may have been occurring at the same time and that manpower and equipment resources were being stretched at the time.

While we believe that staff are doing their best to respond appropriately to all fires, the current system does not provide any documented explanation where response times are significantly in excess of Ministry standards.

We understand that the Aviation and Fire Management Centre is currently reviewing its performance management and reporting systems so that improvements may be implemented in the 1989 fiscal year. In support of the Ministry's efforts, we recommended that response times in excess of those expected for a particular fire be followed up and formally explained. Such a monitoring system would enable recurring problems to be identified and corrected.

Fire Prevention Efforts

The Ministry has a fire prevention program in place which is primarily aimed at eliminating and reducing the risks of people-caused fires. **A concerted effort is being made to educate and inform the general public and industry about safe practices while using the forests.** Advertising, public relations and enforcement are some of the methods used to create awareness of the dangers and causes of forest fires. These include:

- use of printed material, film and videotapes;
- public education through the media, schools and public gatherings; and
- issuance of fire permits and the monitoring of outdoor fires during the fire season.

RESPONSE

The Deputy Minister provided the following reply to our findings and recommendations.

Natural Resources
Forest Firefighting

ACQUISITION OF EQUIPMENT

Water Bomber Maintenance Facilities Inadequate

"These facilities are needed urgently and the Ministry plans to re-apply to Management Board, now that the uncertainty about the NorOntair hangar in Sault Ste. Marie has been resolved."

UTILIZATION OF EQUIPMENT AND STAFF

Lack of Reviews on Major Fires

"The Ministry agreed with the recommendations made in the 1982 Provincial Auditor's Report on Forest Fire Management Activity that:

- *the criteria for the selection of fires (are) to be reviewed and be made more sensitive and practical;*
- *good terms of reference be a prerequisite for each review; and*
- *a mechanism for acceptance and implementation of recommendations be established and that the resulting decisions be a matter of record.*

"A revised Policy and Procedures Manual directive evolved from (the) recommendations and was issued June 20, 1988. It broadens the selection criteria from one of size alone to include fires where significant damage, cost, management activity or for other reasons warrants detailed review. Terms of reference will be specifically designed for each review and approved by the Assistant Deputy Minister, Northern Ontario. A procedure to ensure that recommendations resulting from reviews will be followed up on a timely and appropriate basis has been included.

"The revised selection criteria would have excluded many of the 46 fires greater than 500 acres that were the subject of the audit.

" A fire review reports the details of a single fire only and observations of (the) nature (mentioned in the Provincial Auditor's Report) are not uncommon. When put into the context of the provincial fire emergency situation, however, it becomes evident that :

- *shortages of trained staff occur because of the number of other fires burning simultaneously, some of which are of higher priority than the fires being reviewed;*
- *the deployment of water bombers, because of their limited numbers, must be carefully controlled to direct them to :*
  - *the most critical high priority fires where lives, property and valuable resources are being threatened;*
  - *provide a holding action on new fires until ground crews arrive;*

- *hot-spots under certain conditions on large fires;*
- *supplement initial attack crews on some extremely hot fires;*
- *meet most effectively, the diurnal fire activity cycle that peaks in the mid-afternoon.*

. *fire emergencies frequently require more manpower resources than are available locally. Fire crews are transferred to the scene as rapidly as circumstances permit.*

"The fire reviews audited, reflect conditions that occur under fire overloads.

"The Ministry agrees that fire reviews can be a valuable source of information and assistance in improving firefighting effectiveness."

Improved Allocation of Fire Crews Needed

"Fire crews are allocated proportional to the number and intensity of fires, not the area burned. Approximately half of the fires that occur each year occur in these regions. Therefore, it is appropriate that approximately 50% of the fire crews be located in these regions.

"We agree with the recommendation (and) the allocation of . . . fire crews will be reasssessed."

Inadequate Monitoring of Fire Response Time

"Delays in dispatch may occur for a number of reasons such as :

. *large numbers of fires occurring simultaneously may overload transportation systems;*

. *fires may be reported at night in locations that are not accessible in the dark;*

. *fires may occur in wet conditions, or where spread is limited. Under these circumstances, there may be few costs associated with a slower than average response, especially when there are higher priority fires burning.*

" . . . The recommendation that response times in excess of those expected for a particular fire be followed up on and formally explained is included in our Fire Management control report that will be implemented as soon as possible."

3.12
Concerns over Tax Collection, Motor Fuels and Tobacco Tax Branch, Ministry of Revenue

The Ministry's Motor Fuels and Tobacco Tax Branch is responsible for the collection and administration of revenue from gasoline, diesel and aviation fuels, tobacco and land transfer taxes. For the 1988 fiscal year, such revenues totalled over $2.4 billion, including $1.3 billion in gasoline and fuel taxes, almost $640 million in tobacco taxes and $470 million in land transfer taxes.

Revenue

Taxation Collection

SUMMARY

SCOPE AND OBJECTIVE

Our primary audit objective was to assess the adequacy and cost-effectiveness of the Motor Fuels and Tobacco Tax Branch's processing controls over gasoline, other fuels, tobacco and land transfer taxes.

CONCLUSIONS AND FINDINGS

GASOLINE AND FUEL TAXES

Overall, controls for the processing and collection of gasoline and fuel taxes were adequate and cost-effective. However, we had the following concerns:

- **The Ministry has been unable to collect over $4 million in unpaid taxes identified by recently improved controls over imported gasoline and fuel products.**
- **Millions of dollars in fuel taxes were being lost through export evasion schemes.**

TOBACCO TAX

Controls over the collection of tobacco taxes were satisfactory and cost effective. Although controls over interprovincial cigarette sales have been improved, the smuggling of tax-exempt exported cigarettes back into Ontario could be costing the Province $10 million to $15 million annually.

LAND TRANSFER TAX

Controls over land transfer tax transactions were less than satisfactory. Specifically:

- **The Ministry did not ensure that revenue received on its behalf by Land Registry Offices had all been deposited to the Province's Consolidated Revenue Fund.**
- **Significant delays in land transfer tax assessments have jeopardized collection and prosecution efforts.**
- **A significant backlog of land transfer tax appeal cases also delayed decisions to taxpayers.**

COMMENTARY

GASOLINE AND FUEL TAXES

Overview

As of May 1988, the Province taxed leaded gasoline at 12.3 cents per litre and other grades of gasoline at 9.3 cents. Other fuel products are taxed at 9.9 cents per litre. Most of the taxes are collected by oil companies designated by the Ministry either when sales are made to consumers at the pump or when fuel is sold from the refinery to non-collectors such as independent companies. For

gasoline tax, there are 44 such "designated collectors" which file monthly tax returns and remit the taxes collected. Eighteen of these companies also collect and remit other fuel taxes.

Consumers can apply for a tax refund when gasoline or fuel is used for tax-free purposes such as for heating or in unlicenced farming and construction equipment. However, it is illegal to use untaxed fuel in a licenced vehicle. In 1982, to discourage untaxed fuel from being used for taxable purposes, the Ministry required that non-taxable fuel be dyed at the refineries and introduced a fuel inspection program.

Processing of Tax Returns Adequate

Based on our review of the processing of fuel and gasoline tax returns, we were generally satisfied that adequate controls were in place. For example:

- Over 90 per cent of all gasoline and fuel tax revenues are collected by designated collectors on behalf of the Ministry. This is a cost-effective system of tax collection.

- Furthermore, there were adequate verification procedures to ensure that tax returns were filed and calculated correctly in accordance with rates established by the legislation. Incorrect returns were properly reassessed and approval procedures for refunds were adequate.

Uncollected Taxes on Imported Fuels

When used for heating, fuel is not taxed either federally or provincially. As a result, there is a great incentive for importers to declare otherwise taxable fuel as heating fuel. Prior to early 1987, there was no way to monitor whether U.S. fuel imported into Canada was subsequently used for taxable or non-taxable purposes. In February 1987, a federal/provincial agreement was implemented whereby fuel importers had to either pay federal excise and sales taxes before clearing customs or have their fuel cargo dyed by Revenue Canada Customs Officers upon entry into Canada. Dyed fuel enables Ontario inspectors to readily detect fuel used for taxable purposes.

However, under the current arrangement, Customs Officers do not collect any provincial taxes from fuel importers. Importers, other than the designated collectors, must also file a tax return at prescribed times to remit provincial taxes on gasoline and non-dyed fuel imported into Ontario.

When gasoline and non-dyed fuel have been federally taxed at the border, Revenue Canada forwards a copy of the cargo control document to advise the Ministry that provincial tax is due so that this information can be compared to importers' returns. Provincial tax is then assessed on any imports not declared on the returns.

However, importers are not required to be registered with the province so that bonding security may be obtained to ensure that taxes owing are ultimately collected. Consequently, an importer can avoid paying provincial tax estimated at about $3,000 per tanker truck by reporting a fictitious company name and address to the Customs Officers. **As of April 1988, the Ministry has been able to collect only $400,000 of the $4.6 million identified as owing according to the cargo control documents forwarded by Revenue Canada. In 15 cases, totalling $1.2 million in unpaid taxes, the Ministry was simply unable to locate these companies.**

To reduce loss of tax revenue, we recommended that the Ministry negotiate with the federal government to have federal Customs Officers collect provincial taxes at the border. Compensation for the administrative effort required would be much less than the revenue to be gained. As an alternative, the Ministry should pursue registration of fuel importers.

Significant Evasion of Fuel Taxes through Export Schemes

Exported fuel products are tax exempt. In cases where exporters have purchased tax-paid fuel products in Ontario, they are entitled to a refund of provincial and federal taxes upon filing proof of export.

In recent years many jurisdictions have been concerned about the extent of tax evasion through export schemes. Our interviews with U.S. authorities and Revenue Canada officials confirmed that the problems of exports are significant and that organized crime may be involved. From our discussions and review of work done by these officials, we noted that there were various export schemes to evade taxes. For example :

- A tanker load of non-dyed fuel is obtained tax free from the supplier on the basis that it is to be exported to the U.S. However, a second tanker load of non-taxable dyed fuel is exported in its place, declared as non-dyed fuel. The first tanker load would then be consumed illegally in Ontario, with no risk of detection by fuel inspectors, while the second tanker load would be consumed in the U.S. or imported back into Ontario as non-taxable heating fuel.

  This scheme to obtain fraudulent proof of export of non-dyed fuel could be repeated many times . In one instance, a tanker truck shipment which had been declared as U.S. heating fuel destined for Ontario was found to contain dyed fuel. Laboratory results confirmed a concentration of dye exceeding 27 times the normal dye concentration. **This suggests that the same tanker of fuel had crossed the border as many as 27 times, each time being dyed and obtaining fuel export documentation, thereby avoiding as much as $80,000 in Ontario fuel tax.**

- In recent months, instances were noted where Ontario dyed fuel was used to operate buses and other transportation equipment in the northeastern United States. Although tanker inspections are rarely conducted because

of fear of exposing flammable liquids to heat, a recent border spot-check was conducted by U.S. officials to verify the declared description of fuel products exported from Ontario. All six of the tanker trucks stopped for inspection were found to contain dye in their diesel fuel. Since there are no laws against the use of dyed fuel in the U.S., no further action was taken by the U.S. authorities.

Our discussion with the Organized Crime and Racketeering Section of the U.S. Department of Justice revealed that in 1988, a Petroleum Excise Tax Task Force was set up to investigate organized tax evasion activities in the U.S. and Canada, specifically in the State of New York and the Province of Ontario. Agencies involved in the Task Force include the U.S. federal and state revenue and justice authorities, and Revenue Canada.

Several policing authorities have also offered to provide manpower and services.

While the Task Force investigation is only in its early stages, the Organized Crime and Racketeering Section of the U.S. Department of Justice "conservatively estimate that the amount of taxes being avoided runs into the millions of dollars annually".

We were unable to estimate the extent of tax avoidance. However, since the combined U.S. federal and New York taxes per litre amount to only a fraction of the Ontario fuel tax rate, the incentive for evasion is even greater in Ontario. Ontario fuel exported to the U.S. amounts to over one billion litres annually. If, for instance, this volume of fuel is in fact consumed in Ontario, the loss of Ontario fuel tax alone would total about $100 million.

We recommended that the Ministry:

- establish formal communications procedures with neighbouring states so that they would be notified of gasoline and fuel imported from Ontario. By notifying these adjoining states, Ontario fuel products would be identified and taxed by these U.S. jurisdictions. Collection of local taxes by these states would effectively reduce the incentive for fraudulent activities.

- make greater use of its inspectors to monitor fuel exports at Canadian Customs locations.

- participate on the Petroleum Excise Tax Task Force in order to develop and implement practical solutions to the problem of petroleum tax evasion.

TOBACCO TAX

Overview

The Tobacco Tax Act imposes a tax on all tobacco products including cigarettes, cut tobacco, and cigars. The Act regulates the sale and distribution of these products. This tax is paid by all tobacco consumers except diplomats and native Indians. The current tobacco tax rates are 3.83 cents per cigarette, 2.2 cents per gram of cut tobacco, and 45 per cent of the selling prices of cigars. Export sales and sales on board ships, airplanes, or in duty free shops are also exempt from tax.

Revenue

Taxation Collection

At the time of our audit there were about 130 Ontario tobacco tax collectors comprised of wholesalers, manufacturers/importers, and casual remitters. Wholesalers and manufacturers are required to file monthly tax returns and remittances with the Ministry.

Tobacco taxes are collected primarily from wholesalers and are calculated based on their monthly purchases of tobacco from the manufacturers/importers. The wholesalers recoup the tax when the product is sold to the retailers. The retailers, in turn, recoup it upon sale to the consumer.

Manufacturers submit monthly sales reports (known as "Tax Memos") to inform the Ministry of their monthly sales to wholesalers.

Satisfactory Control over Revenue Collection

Based on our review of monthly tax returns from 40 tobacco tax collectors, as well as related sales reports provided by manufacturers, **we were generally satisfied that adequate controls existed in the collection of tobacco taxes.** Specifically:

- Purchases reported by wholesalers in their monthly tax returns were reconciled to the sales reported by the manufacturers' Tax Memos. Discrepancies were followed up on a timely basis to ensure that wholesalers did not under-remit taxes by under-reporting purchases. **The system of Tax Memos proved to be highly cost-effective.**

- Tax returns were checked for mathematical accuracy by both automated computer edits and manual clerical verification procedures.

- Proper amounts of fines, penalties, and interest charges were levied in accordance with the legislation.

Tax Revenue Lost to Smuggling Activities

Before 1985, interprovincial trafficking of cigarettes was often used by smugglers to avoid paying provincial tobacco tax. In late 1984, tighter export regulations were put in place among provinces, permitting cross-checking of interprovincial shipments to ensure that cigarettes would eventually be taxed in the province where they would be consumed.

However, there has been a drastic increase in tax-exempt sales of cigarettes in the last two years despite generally declining consumption in both the U.S. and Canada. For instance, while cigarette consumption in Canada and the U.S. declined by 12 per cent from 1985 to 1987, export sales to the U.S. doubled during the same period.

Furthermore, in recent years, the media have reported that:

- Contraband cigarettes have been smuggled into Canada via various means of transportation such as car, truck, small air cargo and even snowmobile.

- Tobacco raids by Royal Canadian Mounted Police revealed that oftentimes tobacco smugglers were armed with rifles and machine guns.

- Canadian Customs Inspectors from a Customs post in eastern Ontario openly admitted their inability to stem cigarette smuggling and expressed serious concerns for their own safety because of such activities.

Consequently, Ministry officials have become concerned that a significant amount of Ontario tobacco tax revenue was being lost due to the smuggling back into the province of Canadian cigarettes from the United States. Since cigarettes for export purposes are exempt from Canadian federal and provincial taxes, smugglers would first export Canadian cigarettes to the United States and then ship them back to Canada illegally. The incentive to smuggle cigarettes is significant given that one fully loaded truck of contraband cigarettes can return a profit in excess of $500,000 per trip in the form of unpaid tobacco taxes.

If the increase in exempt sales since 1986 was consumed in Canada, we estimate that tobacco taxes lost to the various Canadian taxing authorities would be as much as $70 million annually. **Accordingly, with almost 40 per cent of the Canadian smoking population concentrated in Ontario, the loss of provincial tax could be $10 million to $15 million annually.**

Our review of remedies for reducing tax lost due to smuggling activities indicated that the most practical might be to institute a distinctive marking system for tobacco products designated for export purposes, or otherwise indicate that Ontario tobacco tax has been paid. This may assist consumers to distinguish between tax-paid cigarettes and the contrabands.

We understand that the Ministry has begun negotiations to implement an Ontario marking system in accordance with an announcement in the most recent provincial Budget. We recommended that the Ministry:

- actively publicize the new marking system once it is in place;

- impose a stiffer penalty on individuals caught selling and buying contraband tobacco products; and

- offer attractive rewards for information leading to the discovery of contraband tobacco.

Improper Tax Exemption Granted

Audit reports issued by the Motor Fuel and Tobacco Tax Branch Auditors in the 1986 fiscal year identified one manufacturer/collector that had been issuing cigarettes to its employees free of charge.

Based on the examination of two years records, the Branch Auditors reported that the free distribution amounted to over 3 million cigarettes per year. Consequently, about $100,000 per year of tobacco tax on these cigarettes had not been remitted to the Ministry. The manufacturer indicated that, since 1970, it

had been issuing cigarettes to its employees as quality control cigarettes for their opinions. We were advised that an agreement was made in 1973 between the manufacturer and the then Director of the Branch to exempt these products from Ontario tobacco tax.

However, according to the Tobacco Tax Act, only tobacco products unfit for consumption and those for exportation are to be excluded from tobacco tax. In addition, only the Lieutenant Governor in Council may make regulations exempting any class of tobacco products and persons from the tobacco tax.

LAND TRANSFER TAX

Overview

Land transfer tax is imposed on most purchasers of Ontario land. At the highest rate of the graduated tax, residents pay 1.5 per cent of the stated price paid for the property. Typically, the tax is paid when the change of ownership is registered at the local Land Registry Office of the Ministry of Consumer and Commercial Relations.

There is a concern that non-residents will compete with local residents for certain types of Ontario land. As a result, a tax rate of 20 per cent is imposed to discourage the acquisition of agricultural and recreational properties by non-residents. The legislation does provide a deferral mechanism and remission of the 20 per cent tax for non-residents that plan to become residents within a two-year period.

Assessments Properly Calculated

Based on our review of 60 property purchase transactions, we observed that **processing controls were adequate to ensure assessments and refunds were computed accurately and properly authorized** in accordance with the legislation.

Lack of Ministry Control over Revenue Collected

The tax collected by the Land Registry Offices is forwarded monthly to the Province's Consolidated Revenue Fund on behalf of the Ministry of Revenue.

The Ministry receives monthly reports of taxes collected from the Registry Offices. However, **we were not satisfied with the reconciliation process used to ensure that all revenue received on the Ministry's behalf had been deposited to the Consolidated Revenue Fund.**

Our examination of the records of revenue transferred from Consumer and Commercial Relations and **the reports of receipts from Land Registry Offices showed that the unreconciled differences were from $.3 million to $3.5 million in any particular month.** Without proper periodic reconciliation to ensure all funds reported by the Registry Offices were ultimately deposited, the

Province is subject to unnecessary exposure from misappropriation of tax revenue.

Untimely Assessments Jeopardize Collection and Enforcement Efforts

Under the Land Transfer Tax Act the Ministry may conduct assessment audits to determine the reasonableness of the amount of tax paid. For instance, if the purchase/market price of the property is deliberately understated, the tax paid would be inadequate. If discrepancies are noted, the Ministry issues a formal assessment for the unpaid taxes owing. The Act limits assessment to a four-year period from the date of the transaction unless the Minister establishes misrepresentation on the part of the taxpayer.

Most assessments are undertaken as a result of field audit findings. Factors taken into consideration in determining which transactions should be audited include the amount of tax to be paid, numbered companies, non-resident purchases, and other activities deemed to be of an unusual or high-risk nature. In 1987, about 80 assessments were levied, totalling about $8 million in additional taxes and interest.

Despite their significant revenue contribution, only about four per cent of staff time was allocated to such field audit activities. Most staff time was spent providing information to the public and processing refunds. As a result, most assessments were not timely. **At the time of our audit, there were about 140 uncollected assessments. Our review of these uncollected assessments showed that over 70 of them had been issued more than four years after the land was purchased. Another 20 assessments were issued under four years by just a matter of days.**

The significant delays have jeopardized collection and prosecution efforts. In particular, we observed the following instances:

- Numerous non-resident clients of one lawyer were not assessed the 20 per cent land transfer tax for periods up to seven years. We identified over 50 outstanding assessments against these individuals, which at the time of our audit, totalled over $7 million in additional taxes and interest.

- Assessments totalling $360,000 were issued against a corporation in May 1982, about three years after the original transactions took place. A court order was finally obtained to seize the underlying property. However, this was two years after the corporation had been cancelled under the Business Corporation Act.

- Another assessment for $228,000 was made in April 1986 for a transaction concluded in July 1983. However, the assessed company's assets had already been disposed of in May 1985.

- Four other assessments were made where the underlying parcels of land had already been re-sold and/or transferred prior to assessment. As a result of the disappearance of potential security, these assessments had to be written off.

Since the Act establishes a six-year limit on prosecutions of any offence, the significant delays in assessment have left insufficient lead times for potential prosecutions. We were able to identify only one successful prosecution under the Act since its inception some nine years ago.

To reduce the amount of financial hardship imposed on taxpayers and improve collection and enforcement efforts, we recommended that more effort be devoted to field audit activities.

Significant Backlog in Appeals

If an audit has been done and an assessment issued, the taxpayer has 180 days to file a notice of objection. If the taxpayer objects, the files are turned over to the Appeals Branch of the Ministry.

Our review of 108 notices of objection considered by the Appeals Branch in the 1988 fiscal year indicated that:

- **34 appeals had been outstanding for over a year. In one case, a decision had not been made in over three years.**
- **Only two of the cases had been decided by the Branch during the year.**

The legislation provides that upon receipt of a notice of objection, the Minister "shall with all due dispatch" reconsider the assessment and notify the taxpayer of his decision. However, we observed that the Ministry allocated only one person part-time to handle land transfer tax appeals.

RESPONSE

A response to our audit report was received from the Deputy Minister on October 12, 1988.

GASOLINE AND FUEL TAXES

Uncollected Taxes on Imported Fuels

"This recommendation has considerable merit and will be pursued further with the federal government, although federal authorities have traditionally refused to become involved in the collection of provincial taxes on commodities. . . .

"At the same time, it should also be recognized that such an agreement would involve certain practical difficulties. For example, even if it could be negotiated, any arrangement to extract taxes from importers at the border entry point into Ontario, would not be without complication, particularly since vast quantities of petroleum products are legitimately trans-shipped through Ontario from the United States for consumption outside Ontario where the tax would be properly payable.

"The alternative of requiring fuel importers to register with the province is much more simple and effective. Without registration, the importer would not be permitted into the Province. A bond from the importer, as a condition of registration, would provide a fast and effective means of collecting any unpaid tax. Legislative amendments to require registration have been proposed by the Ministry and are now a high priority item. . . . Legal specifications for the necessary legislation have been prepared and will be advanced through the appropriate approval processes.

"In the meantime, we have been encouraged by recent federal cooperation in addressing fuel tax issues, . . ."

Significant Evasion of Fuel Taxes through Export Schemes

"The number of Canadian and American enforcement agencies active in seeking effective means to control the evasion of tax on petroleum products, underscores the complexity of the issue and the seriousness with which it is taken. For its part, during the past few years, Ontario has taken several significant initiatives on this front.

"Firstly, in 1985, negotiations commenced to establish a formal exchange of information agreement with New York State, and in 1987, similar arrangements were commenced to establish agreements with six other bordering states.

"Final arrangements are now being made to enable a full reciprocal exchange of documentation on traffic in petroleum products.

"Secondly, Ontario initiated a co-operation program with Quebec and the Canadian federal government in 1987, to monitor and control the import of petroleum products. In fact, the dye used to mark untaxed fuel, all operating procedures and staff training were provided by Ontario.

"Thirdly, during the past three years, Ontario inspectors have conducted several blitzes at border points to monitor export activity and verify products carried against written documentation. It should be mentioned that the volume of traffic makes effective checking extremely difficult, and the number of exit points makes coverage on a 24-hour basis virtually impossible. However, periodic blitzes will continue in order to make tax evasion more difficult.

"Fourthly, for several years now, staff from the Motor Fuels and Tobacco Tax Branch and the Special Investigations Branch have shared information with enforcement counterparts from both federal, state and provincial governments. Ongoing contacts with the O.P.P. and R.C.M.P. have been maintained. Based on recent changes in the Ministry of Revenue Act regarding exchange of information, steps will now be taken to seek official membership on the Petroleum Excise Tax Task Force, which was established in June 1988.

"The high tax component in fuel prices in Ontario and elsewhere provides a powerful incentive to tax evasion. . . . The vast quantities that can be carried at one time either by road or by water-borne vessel means that large amounts of tax

are continuously at risk. In addition, new methods of evasion are being developed and exploited continuously. The Ministry believes that the most effective approach to stemming evasion is a combination of complementary actions that include on-road monitoring and detection, the sharing of information among jurisdictions, and legislative amendments requiring registration, bonding and reporting for importers and exporters of petroleum products. Ontario will continue to pursue these as vigorously as possible."

TOBACCO TAX

Tax Revenue Lost to Smuggling Activities

"The fact that tobacco tax evasion continues to be a concern for all taxing jurisdictions, again underscores the complexity of the issue and the difficulty in finding effective solutions. Again, the high tax component in the price of cigarettes contributes significantly to the attractiveness of evasion. Also, the availability of untaxed cigarettes and the differences in tax rates among jurisdictions, make enforcement particularly difficult. For its part, during the past few years, Ontario has taken several initiatives.

"In 1982, when untaxed cigarettes acquired by Indians, ostensibly for consumption by Indians, far exceeded reasonable quantities, Ministry staff worked with the Indian leadership to establish a system of controls using permits and quotas. This effectively limited the number of cigarettes that could be acquired by Indians. This was the first such control measure in North America. Through sharing our experiences, other jurisdictions have followed similarly, most recently British Columbia and Quebec.

"In 1984, Ontario took the lead in negotiating an exchange of information agreement involving all Canadian provinces. This was to address the problem of tax evasion through cigarettes being imported to a higher tax jurisdiction from a lower tax jurisdiction without being reported.

"In 1986, Ontario went one step further and amended its legislation to require wholesalers who export cigarettes to another jurisdiction to pay the tax first to Ontario. Refunds would be allowed where it could be shown that the cigarettes had been reported to the receiving jurisdiction. These amendments effectively eliminated the practice of claiming exemptions in one province but not reporting tax to the other.

"Further, an exchange of information agreement initiated by Ontario has been concluded with New York State. Information on tobacco products is included in that agreement. Negotiations are in progress with six other bordering states to enter into similar agreements.

"The Ministry is now working on the design of a marking system that will identify tobacco products on which the Ontario tax has been paid. It will become an offence for unmarked stock to be possessed and distributed at retail, or consumed in Ontario. A vigorous publicity campaign will be undertaken to ensure that the new system is well understood before it comes into effect in the new fiscal year.

Comments on Ministry Audits

"Consideration has been given to marking only those tobacco products destined for export, since the smuggling of those products back into Canada is a major source of tax evasion. However, since all other tobacco products would remain unmarked, it would not assist to identify cigarettes that were moving from one province to another.

"Legislation has now been drafted to substantially increase the penalities for tobacco tax evasion. At the present time, tobacco products that are seized must be returned if a bond is posted, and the bond returned if evidence is produced that the product has been removed from Ontario. The amendments provide that seized product will not be returned unless it can be shown that it was possessed legitimately and that all taxes have been or will be paid.

"It is not Ministry practice to offer rewards for information about tax evaders."

Improper Tax Exemption Granted

"... The Branch is aware of this issue. ... The exemption was granted ... for quality control testing purposes. Cigarettes consumed by machine testing have been considered exempt, and this ruling was extended to the case at issue.

"There currently are only 150 employees involved in the company's quality control program, substantially fewer than in the 1985/86 period covered by the earlier (Branch) audit. At current rates, the tobacco tax foregone is now approximately $30,000 annually.

"The exemption in question is under review within the Ministry. If that review confirms the Auditor's observation, the exemption will be withdrawn."

LAND TRANSFER TAX

Lack of Ministry Control over Revenue Collected

"The 'unreconciled differences' to which the auditor refers result from different cut-off dates between the monthly statistical reports provided to (the Branch) by the individual registry offices and the monthly journal from (the Ministry of Consumer and Commercial Relations') head office reflecting deposits of land transfer tax by CCR into the consolidated revenue fund. A proper reconciliation of the two reports could only be effected by CCR as (our Branch) does not receive supporting documentation with regard to all deposits or transactions.

"A draft memorandum of understanding was prepared ... and forwarded to CCR in February 1988. (Our Branch) has followed up with CCR to determine the status of that Ministry's review of the proposed agreement."

Untimely Assessments Jeopardize Collection and Enforcement Efforts

"Most of the cases referenced by the auditor involve non-resident corporations and the question of who is the beneficial owner of the corporation's shares.

Transportation
Design Activity

"It is very difficult to obtain information on which to base assessments in non-resident land transfer tax cases. Lengthy discussions and exchanges of correspondence with the taxpayer's representative are usually required and often, there are delays while the taxpayer's Canadian Solicitor communicates with his client, living abroad. In many of these cases, it is necessary to await subsequent events to determine whether or not there are appropriate grounds for an assessment.

"Increasing staff time available for audits would certainly be useful in reducing the elapsed time for particular audits, and the Branch will examine ways in which this might be achieved. However, . . . the Branch operates under tight budgetary controls and staffing limits. This involves maintaining a balance among several important activities. For example, land transfer tax staff must be available to assist clients and provide direction of land registry office officials so that transactions can be processed expeditiously and tax collected in the proper amounts at the time of registration."

Significant Backlog in Appeals

"As noted by the auditor, Tax Appeals Branch handled 108 objections under the Land Transfer Act in 1987/88. Of these 108, 74 were actually received during the 1987/88 fiscal year -- three times the number received in each of the preceding two years. However, a simple count of objections is misleading. A total of 94 objections relate to one issue -- the use of corporations as bare trustees in attempts to avoid the 20% rate of tax on agricultural land purchased by non-residents. One legal firm is handling 62 such objections on behalf of various taxpayers. These cases all involve substantial documentation and evidence obtained from non-residents, in most instances requiring translation before review. As these non-resident cases are very similar, we anticipate that they will be resolved as a group on the same basis. Should these assessments be confirmed, it is likely that appeals to the Supreme Court of Ontario will ensue, thus requiring a careful review of all evidence before disposition by Tax Appeals Branch.

"An additional Appeal Officer was assigned to land transfer tax workload on June 1st, 1988. We anticipate that the inventory of objections at 31st March, 1988 will have been substantially reduced by the end of the current fiscal year."

3.13
Improved Efficiency Required, Design Activity, Ministry of Transportation

The Design Activity is responsible for the design of all provincial highway construction projects, including project justification and tendering specifications.

The 1988 fiscal year expenditures for this Activity were $ 79 million. (Vote 3604, Item 2)

SUMMARY

SCOPE AND OBJECTIVES

In conducting our review of the Design Activity of the Provincial Highways Program, one of our audit objectives was to assess whether adequate controls were in place to ensure that engineering consultants, design staff and related services were being utilized efficiently.

Comments on Ministry Audits

CONCLUSIONS AND FINDINGS

UTILIZATION OF CONSULTANTS AND DESIGN STAFF

Adequate controls were not in place to ensure resources were being utilized efficiently.

- **Payments to consultants consistently exceeded the ceiling price set out in their contracts.**
- **Wide cost and time variations for similar design work were not being monitored by the Ministry.**
- **A computerized system, originally scheduled for completion in 1983, was still not functional in 1988 and the cost had increased by over 300 per cent.**
- **The basis of payment for concrete removal on bridge rehabilitation work encouraged cost overruns.**

COMMENTARY

Background

Provincial highway design work is done primarily at the Ministry's five regional offices. Although approximately 860 designs, or 80 per cent of the total number of designs completed in the 1988 fiscal year, were prepared by regional personnel, a secondary function of the regional offices is the selection and monitoring of design work performed by consultants.

The Ministry's Head Office also plays a role in this activity by providing technical advice, assisting in scheduling the design and construction of projects, maintaining and updating policies and standards and ensuring the uniformity of design across the province.

Approximately 1,200 staff are employed in the Design Activity. Salary and employee benefits represented approximately 60 per cent of the total 1988 fiscal year Design Activity expenditures of $79 million. Since most of these expenditures relate to the regions, our audit reviewed significant projects at three of the largest regions, Central, Northern and Southwestern, in addition to certain work at the Head Office divisions.

UTILIZATION OF CONSULTANTS AND DESIGN STAFF

Need for Improved Control over Consultants' Work

The planning and design staff of the Ministry are responsible for all aspects in the design of provincial highways such as preparing general plans, detailed drawings, estimates of quantities and other work which must be performed before the specifications can be completed and a construction contract awarded. Design staff are also involved in performing planning functions, such as the identification of future needs and justification of current projects.

When sufficient in-house resources are not available to perform these functions, engineering consultants are hired by the regional offices. During the 1988 fiscal year, 37 consulting firms were hired for planning and design assignments at an estimated cost of $19 million.

The Ministry uses a roster rotation system for selecting engineering consultants. This system is based on an equal distribution of assignments to qualified consultants without price competition. The type of assignments awarded under this system are typically the more routine tasks.

After a consultant has been selected and approved, the Ministry negotiates the fee, including a ceiling price. This fee is based upon an assessment of known information, judgement by both parties on the hours required to perform the work, the hourly rates for the consultant's staff assigned to the project, a payment formula and specific terms of reference for the work to be performed.

In addition, the selection of a particular consultant was usually supported by comments such as "demonstrated capabilities and experience" and "familiarity and background with the project". This would imply that the consultant had the experience necessary to make a reasonable estimate of the amount of time required to perform the specified services.

Despite the preceding, consulting costs frequently exceeded ceiling prices by significant amounts. Based on a review of a number of consultant project files, it was evident that there was little incentive for the consultants to complete the work within the agreed upon timeframe and price. The Ministry had experienced considerable difficulty, particularly in the Central Region, in negotiating ceiling prices that would remain in force throughout the assignment. In this region we noted the significant escalation of costs on various projects. For instance :

- In one contract, the consultant was to provide detailed design services for the Hwy. 7 reconstruction, widening and interchange project. The agreement was signed in 1982, with a ceiling price of approximately $567,000, and the work was to be completed in 1983. However, the work was not completed until 1987 at an approximate total cost of $1.1 million. Correspondence between the Ministry and the consultant indicated that the costs of the project had been poorly controlled.

- A ceiling price of approximately $436,000 was established for the provision of detailed design services for a reconstruction project on the QEW near St. Catharines. The work was to be completed in 1979. However, the work was not completed until 1982 and the final cost of the assignment was approximately $1.3 million. Ministry correspondence indicated that the time taken by the consultant to complete the assignment was unreasonable.

- In another assignment, a ceiling price of $225,000 was established for the provision of preliminary design services for sections of Hwy. 407 and

Hwy. 7. The agreement was awarded in 1978 and the work was to be completed in 1979. However, the work was not completed until 1984 at an approximate total cost of $873,000.

Correspondence in Ministry files indicated a need for better planning and preparation of projects together with a clear definition of the scope of the work to be done. Consultants also indicated a lack of direction and control by the Ministry staff over day-to-day operations.

We recommended that the Ministry exercise better control over consultants to ensure that costs are contained within the established ceiling price, particularly since consulting assignments are not tendered and are generally for routine assignments where the required time can be more accurately estimated.

Better Monitoring of Design Cost and Time Required

In 1986, the Ministry developed an information system known as the Unit Cost Reporting System. One of the primary purposes of the System is to provide Head Office with the information necessary to monitor, control and compare the time taken on design activities throughout the province. For instance, significant deviations in time and costs between regions for the same type of work warrant investigation. Also, Head Office uses the System to evaluate the comparative cost effectiveness of performing the work in-house rather than using consultants.

From our review of the reports produced for the 1986 and 1987 fiscal years, we noted wide variations in the unit costs of specific operations between regions. We also observed that no one at Head Office was reviewing or analyzing the information generated by the System. The following examples are indicative of areas we felt warranted review:

- The average unit cost per region for in-house detailed design of re-surfacing projects ranged from $660 to $56,000 per million dollars of construction value.

- The average unit cost per region for in-house detailed design of reconstruction projects ranged from $[illegible] to $37,000 per million dollars of construction value.

- The average unit cost for the detailed design of reconstruction projects performed by consultants ranged from $5,500 to $69,000 per million dollar of construction value.

Regional staff questioned the accuracy of the data input and calculations of the System. Regional staff also felt that the reports were not useful since unit costs are only developed once a year and comparative data is not available until several months after year-end.

Transportation
Design Activity

We were informed that when the System was first developed, the Ministry anticipated that it would be several years before an information base existed from which comparisons could be made and conclusions could be drawn. While we support the Ministry's initiative in developing the System, increased monitoring of the data presently being generated is essential not only to aid management in identifying possible inefficiencies but also to ensure the underlying database is accurate.

Development Project Five Years Overdue

Until 1979, the Ministry had used a large number of computer programs to aid in the design and analysis of highway structures. For instance, if the basic specifications of a bridge or overpass were inputted, a program would calculate many of the detailed specifications, such as the type and amounts of steel, asphalt, etc., that would be required. These programs had been written over the previous 15 years and were in accordance with the highway specifications set out by the American Association of State Highway and Transportation Officials.

In 1979, the Ministry recognized that these programs no longer fully met the needs of the design of highway structures in the province and proposed a new computer software program called the Ontario Modular Bridge Analysis System. The major benefits that were to be realized from the System included reductions in construction costs due to improved design and the examination of more alternatives, reduced design time, and greater uniformity and implementation of standard methods and solutions.

An advisability study completed in September 1980 recommended creating the System at an estimated total cost of $730,000. A preliminary design report completed in September 1981 revised this estimate to $840,000.

By March 31, 1988 the total cost of the System had escalated from $840,000 to $3.4 million. We noted that:

- Systems development projects with total estimated costs in excess of $100,000 require Management Board approval prior to initiation. There was no evidence of specific Management Board approval for the initial stages of the System's development. Management Board approval was obtained in the latter stages for part of the escalating costs ($62,000).

- The development of the System lacked management review and direction. The Steering Committee established to monitor the development, met only twice, on July 22, 1982, and August 22, 1985, and no terms of reference were ever established for it.

The implementation schedule prepared in September 1980 indicated that the System would be fully operational by September 1983. However, we noted that the project was still not completed. The major causes cited for the delay in the development and implementation of the System included:

- a lack of understanding of the complexity of the System by the project teams;

- a lack of communication among the project groups involved in the System's development; and

- no formal methodology in the development of the System, which caused confusion among project members as to what direction to take.

In addition, the System had not gained general user acceptance. For instance, staff were resistant to the changes in their work methods brought about by the System.

We recommended that management develop a coordinated action plan involving all parties to address the present systems problems.

Savings Possible in Concrete Removal

In preparing design specifications for the removal of concrete on bridge rehabilitation, there are two different methods on which payment is based. One payment method is based on the area or volume of concrete to be removed when this can be accurately estimated during the design phase. However, the method used in most rehabilitation contracts bases payment to the contractor on the number of hours taken by the contractor's crew to remove the concrete.

A report published by the Structural Office of the Ministry in June 1987 recommended that the basis of payment for concrete removal be changed from crew hours to area or volume of concrete removed because of the noted disadvantages. **The report also noted that when payment was based on crew hours, the average cost of removing concrete was $2,185 per cubic metre whereas the average cost was $103 per cubic metre when payment was based on area or volume.**

Using crew hours as a method of payment has several disadvantages over a method based on area or volume in that it provides no incentive to the contractor to work as fast as possible. Furthermore, extensive inspection is required by Ministry staff to ensure that a full crew is in operation and that an efficient average removal rate is maintained. **We estimated that the use of crew hours as a method of payment resulted in cost overruns of up to $1 million in the 1987 fiscal year.**

RESPONSE

We received the following reply from the Deputy Minister.

Need for Improved Control over Consultants' Work

"Establishing the ceiling price for consultant services on planning and design assignments is reasonably easy to accomplish when all influencing factors are stable and can be accurately forecasted over the life of the assignment. . . . It should be appreciated that the rural lands surrounding . . . (the Highway 7 project were) under intensive urban development causing land purchases, utilities, road access requirements, and staging of the works to be modified

subsequent to the initial consultant's assignments. With respect to the consultant assignment in the QEW-St. Catharines area, the design for reconstruction proved to be more complex than first estimated, although we agree added control should have been placed on the consultant's work.

"We agree greater efforts should be placed in the preparation of estimates and payments to consultants particularly in Central Region where assessment of the work to be done is much more difficult to estimate. Further, we plan to appraise the performance of consultants' work both at the end of the assignment and at the completion of construction. Unacceptable consultant work will certainly affect the award of further assignments."

Better Monitoring of Design Time Required

"The Provincial Auditor's report notes the Ministry's development in 1986 of a Unit Cost Reporting System intended to monitor, control, and compare the costs of design activities through the five Regions. Further, it is noted this new system has not produced dependable data for the purpose intended. We can agree with these observations and readily accept the recommendation to continue to review and refine the (System). The Ministry recognizes (the System) to be a management tool to bring added uniformity and control to our planning and design activities."

Development Project Five Years Overdue

"The Ministry project team was aware of the complexity of developing the (Ontario Modular Bridge Analysis System) project but grossly underestimated the time it would take to complete it. While communication of the OMBAS project to senior administration could have been better it was quite adequate at the technical working levels. . . .

". . ., the Ministry will again establish an OMBAS steering committee charged with giving the project both review and direction. The first task will be to report on OMBAS accomplishments and preparation of a forecast of activity, time and costs to complete the project."

Savings Possible in Concrete Removal

"The Provincial Auditor has noted the Ministry pays its contractors for concrete removed on bridge deck rehabilitations by the crew hour. Alternate payment methods, such as payment by removed area or volume (of concrete) have been used previously and (were) discontinued, primarily as the extent of the work could not be accurately established beforehand.

"More recently the Ministry has re-evaluated its rehabilitation work requirements in the context of achieving more durable bridge decks. It has been determined that it is desirable to remove all suspect concrete in determined areas where

ambient voltages in the steel exceed a specified value. Alternatively more durable work will result if the delaminated concrete is removed about one inch below the upper course steel. This change in work method will allow for a much improved estimation of the concrete quantities to be removed.

"It is the Ministry's intent to move towards payment by the square metre for concrete removal in bridge deck rehabilitations."

3.14

Opportunities for Cost Reductions, Municipal Roads Program, Ministry of Transportation

The objective of the Municipal Roads Program is to financially assist municipalities by providing subsidies for road maintenance and construction.

During the 1988 fiscal year, the Ministry provided municipalities with subsidies totalling $628 million. (Vote 3607, Item 2).

SUMMARY

SCOPE AND OBJECTIVES

In conducting our audit of the Municipal Road Subsidies we reviewed activities at the Ministry's Head Office, and visited five districts and four municipalities to assess the degree to which they monitored their construction projects.

Our audit objectives included assessing the adequacy of:

- controls over the allocation and payment of subsidies to municipalities.
- monitoring of expenditures incurred by the municipalities.

CONCLUSIONS AND FINDINGS

SUBSIDY ALLOCATION AND PAYMENT

Controls over the allocation and payment of municipal road subsidies to municipalities were adequate.

MONITORING OF MUNICIPAL EXPENDITURES

Monitoring of municipal road construction expenditures was more than adequate, perhaps even excessive. However, there was virtually no monitoring of municipal maintenance expenditures which comprised almost 50 per cent of total subsidies. We observed that:

- **Field visits to construction sites of large municipalities could be reduced significantly.**
- **Expenditures for similar maintenance activities varied widely among municipalities.**
- **Substantial annual savings could result from the introduction of cost control measures over maintenance expenditures.**

Transportation
Municipal Roads Program

- **Approximately $2 million annually could be saved if the Ministry set a maximum level at which municipal employees' fringe benefits would be subsidized.**

COMMENTARY

SUBSIDY ALLOCATION AND PAYMENT

Overview

There are 105 employees in the Municipal Roads Program. Of these, 23 were located at Head Office and 82 at the 5 regional and 18 district offices. Regional and district personnel are responsible for approving individual municipal construction contracts, design specifications and plans for subsidy purposes. They also provide technical and policy advice to municipalities.

For purposes of determining municipal subsidies, the Ministry groups the Province's 885 municipalities into three categories: upper tier, large lower tier and lower tier. Municipalities are placed in these categories based upon population, level of road and bridge expenditures, and number of urban kilometres. Typically, the annual allocation process to the various tiers is based on the previous year's amount with some inflationary adjustment.

Allocation to the various municipalities within each tier is done through a series of formulas. The construction allocation formula, for example, considers such factors as the current quality of roads, the dollar value of construction projects as determined by municipally prepared needs studies, and the municipality's ability to finance the road work itself.

The Ministry allows municipalities to decide how the subsidies are to be spent, e.g. how much will be spent on maintenance versus construction, what type of construction (resurfacing vs. construction) is undertaken, etc.

Adequate Allocation and Payment of Subsidies

During our review of the basic allocation procedures, we noted that the **methods used to allocate the total subsidies available were generally sound and were directed at arriving at an equitable allocation which took into account both the needs and the funding capabilities of municipalities.**

In addition, we were well satisfied with the controls over the payment of subsidies.

MONITORING OF MUNICIPAL EXPENDITURES

Re-evaluation of Field Visits Needed

During 1987 municipal subsidies for construction purposes were $307 million.

District personnel spent approximately 50 per cent of their time in field visits. Visits to construction projects are made to ensure that they are being built according to design, that proper administrative procedures are in place at construction sites and to advise municipalities on policy and technical matters.

Field visits are either planned by district personnel or can be requested by municipalities.

Since most construction projects are funded by both the municipality and the Ministry, it is in the municipality's best interest to ensure that good expenditure controls exist. We visited four upper and large lower tier municipalities to assess the degree of municipal monitoring of their construction projects. We noted that municipal control over construction projects was good. Therefore, we were not convinced that regular field visits by district personnel were necessary.

All municipalities that we visited felt that they did not really need technical advice from district office staff. Discussions with district office personnel also confirmed that project reviews may not be essential for many upper tier and large lower tier municipalities since they had good controls over construction projects.

We acknowledged that for smaller municipalities with less staff and resources, district office staff provided valuable technical and administrative assistance. However, **since the upper tier and the large lower tier municipalities have their own qualified staff to supervise and control these projects, we felt that field visits to these municipalities could be reduced significantly.**

Little Control over Municipal Maintenance Costs

Overview

Maintenance expenditures for the upkeep of the road system include expenditures for winter control, direct and indirect maintenance expenditures. Winter control expenditures are primarily sanding, salting, snowplowing and snow removal. Direct maintenance includes ditching, curb and gutter maintenance and catchbasin maintenance. Indirect maintenance expenditures include grass cutting, street cleaning and debris and litter pickup.

In 1987 municipal subsidies for maintenance purposes were $271 million, of which $68 million was for winter control, $133 million for direct maintenance and $70 million for indirect maintenance.

We reviewed selected maintenance expenditure data to assess whether the Ministry was monitoring municipalities to ensure they were spending funds on maintenance in a prudent manner.

We selected 22 upper tier and 17 large lower tier municipalities and analyzed indirect maintenance and winter control costs for 1986 and 1987 from annual returns submitted by them.

Variations in Indirect Maintenance Costs

We reviewed five specific indirect maintenance activities, which together, in 1987, accounted for $53.6 million, or 77 per cent of the total subsidy dollars paid for indirect maintenance. **Our review of the five activities revealed a wide variation in such costs across the Province.** For instance:

Transportation
Municipal Roads Program

Activity	Upper Tier Municipalities Cost per km High	Low	Large Lower Tier Municipalities Cost per km High	Low
	$		$	
Grass cutting/weed spraying	277	14	606	60
Tree planting/removal/ trimming	204	6	1,556	33
Debris and litter pickup	111	3	844	75
Street cleaning	51	6	1,100	139
Sign maintenance and materials	204	25	618	108

The preceding analysis does not take into account variables such as geographical locations which could have an impact on maintenance costs. Therefore, the analysis was extended further by comparing the indirect costs for these five activities between geographically close municipalities in 1986 and 1987.

- **The City of Guelph spent nine times as much per kilometre for grass cutting/weed spraying as the neighbouring City of Kitchener.**

- **The City of Hamilton spent ten times as much per kilometre for tree planting/removal and trimming as the City of Burlington.**

- **The City of Hamilton spent three times as much per kilometre for street cleaning as the City of Burlington.**

We also noted large increases in indirect maintenance costs from one year to the next. These costs should not show large variations from year to year since they are not as dependent upon uncontrollable factors such as the weather. Examples of large increases from 1986 to 1987 were as follows:

- **Belleville's streetsweeping costs increased by 1,000 per cent.**

- **Elgin County's tree planting/removal/trimming costs rose by 160 per cent.**

- Several municipalities had large increases in debris and litter pickup costs. For example, the counties of Prescott and Russell experienced an increase in costs of 187 per cent, Frontenac County, an increase in costs of 235 per cent, and the City of Cornwall, an increase in costs of 700 per cent.

Variations in Winter Control Costs

Two specific activities were selected for detailed comparison: sanding/salting and snow removal/plowing. We estimated that these two activities represented $61 million, or 90 per cent, of the $68 million allocated for winter control in 1987. While some fluctuation would be expected based on varying weather conditions, the differences were wider than we had anticipated.

Activity	Upper Tier Municipalities Cost per km High	Low	Large Lower Tier Municipalities Cost per km High	Low
	$		$	
Sanding/salting	850	163	2,463	500
Snow removal/plowing	683	169	3,311	771

Comparisons were then made for these two winter control activities for geographically close municipalities. Again, our review noted significant differences.

- **Oxford County spent one and a half times as much per kilometre for snow removal/plowing as Brant County in 1987.**

- **The City of Hamilton spent twice as much per kilometre for snow removal/plowing as Burlington in 1986 and 1987.**

Increased Monitoring of Maintenance Expenditures Is Required

District office staff could not provide us with explanations for the large variances we noted. A shortage of staff and inadequate computer equipment facilities were cited as the main reasons for deficiencies in the lack of comparative analysis.

We concluded that while controls over construction costs are more than adequate, municipal maintenance expenditures, which constituted almost 50 per cent of the total subsidies, are not subject to any cost controls whatsoever. District office staff concentrate almost exclusively on construction work and although the Municipal Roads Office is aware of varying overall cost/km for municipal maintenance, these costs are not analyzed or monitored.

Based upon our analysis of maintenance costs, we estimate that the potential exists for annual savings in excess of $20 million if the Ministry more closely monitored maintenance costs and if reasonable spending limits were placed on these expenditures. Any savings brought about by greater economy and efficiency in maintenance costs could be channelled into increased funding for municipal construction projects.

Given the availability of expertise within the Ministry, consideration should be given to conducting operational or value for money audit work at municipalities incurring comparatively higher maintenance costs. This audit work could be conducted concurrently with the periodic audits by the Municipal Audit Bureau to minimize any disruption or inconvenience at the municipal level.

Disparities in Municipal Fringe Benefit Expenditures

Municipalities are subsidized for the payroll fringe benefits for employees who perform road, bridge and other eligible road work. There are no limits placed by the Ministry on fringe benefits that can be claimed by municipalities as long as it can be shown that these costs were incurred by them. During the 1987 fiscal

year, we estimated that total fringe benefits for all municipalities amounted to $58 million, of which approximately $30 million was subsidized by the Province.

We reviewed municipal fringe benefit costs in four of the 18 district offices and also compared these fringe benefit costs to those paid by the Province of Ontario for their employees. We noted there were wide disparities in fringe benefits claimed by municipalities which ranged from a low of 19 per cent to a high of 54 per cent of salaries. The disparities were mainly due to the unproductive labour component, such as vacation time, sick days, etc., which seemed to be more generous in municipalities than in the Province.

Although the Ministry's policy is to pay fringe benefit costs as long as such costs are incurred by municipalities, we felt that a reasonable limit should be placed on these costs, especially since they do not directly contribute to the quality of the roads. **Using the Province of Ontario's fringe benefit percentage of 29 per cent of salary cost as the maximum allowable, and applying this to the 18 districts across the Province, we estimated that approximately $2 million annually would be available for re-allocation.**

RESPONSE

The Deputy Minister replied to our findings and recommendations on October 11, 1988.

MONITORING OF MUNICIPAL EXPENDITURES

Re-evaluation of Field Visits Needed

"Ministry policy only requires a limited number of such visits to ensure that proper controls are in place on municipal project. . . . A recent audit by the Ministry's Internal Audit Branch discussed the issue of accountability in this and other areas, and expressed some concerns that the necessary controls may not be strong enough. Management Board presently has a project underway to confirm accountability for transfer payments.

"My staff already have plans to review this item . . . .

"In the meanwhile, I am satisfied that these field visits continue to be essential to the proper administration of the program."

Little Control over Municipal Maintenance Costs

"The Ministry has recognized the right of each municipality to set its own standards for items such as those reviewed in this report because of the differing needs and circumstances of each municipality.

"For example, . . . there are different requirements in urban areas as compared to less developed rural areas . . . . The type of development and local land use will affect such activities as street cleaning or litter pick-up needs. In addition, the reporting practises of individual municipalities are not always similar, making comparisons difficult. Geography, can also have a strong impact on costs. . . .

Comments on Ministry Audits

"For these reasons, we . . . allow each municipality to set its own standards. Instead, the Ministry does limit subsidy through its allocation process to average levels of service. Many municipalities choose to provide a higher level of service and overspend their allocations. Where the Ministry has become aware and has determined that such activities are being undertaken for non-road reasons, adjustments have been made. In addition, the Ministry has previously encouraged larger municipalities to adopt Maintenance Management systems. It is also providing support to the Ontario Good Roads Association for its productivity Improvement Program.

"We do not believe that the (identified) savings . . . can, in fact, be realized because of the (preceding) reasons. Nevertheless, we will be requiring our staff to pay greater attention to these activities when reviewing Annual Returns and in discussions with the municipalities."

Disparities in Municipal Fringe Benefit Expenditures

". . . the roads staff are only a portion of the total municipal staff.

"The Ministry has not seen fit to influence individual municipal agreements . . . . Such a practise could have a number of implications in other government programs. We will discuss the issue with the Ministry of Municipal Affairs to determine if further action is appropriate."

CHAPTER 4
COMMENTS ON CROWN AGENCY AUDITS

4.1 Introduction

The term Crown agency for the purposes of this segment of the Report includes both agencies of the Crown and Crown controlled corporations. Agencies of the Crown and Crown controlled corporation audits for the year ended March 31, 1988 are listed, respectively, in Exhibits 3 and 4.

The annual audits of Crown agencies are primarily designed to express an opinion on whether the agencies' financial statements are presented fairly. While there have been some qualifications of opinion involving accounting matters and audit scope limitations, in no case did the auditor express either an adverse opinion or an inability to provide an opinion on the financial statements.

In addition to the attest audits several agencies are selected by this Office each year for a broader scope audit. Typically, one of the more significant operational areas of the agency is reviewed for evidence of good management practices relating to economy, efficiency and/or procedures to measure effectiveness.

Significant matters identified in both attest and broader scope audits are included in this chapter.

4.2 Operational Improvements Required, Liquor Control Board of Ontario

The Liquor Control Board of Ontario regulates the sale and transportation of liquor throughout the Province and establishes stores for the sale of liquor to the public.

Liquor sales by the Board for the 1988 fiscal year totalled $1.9 billion while the Board's net income was $641 million. The Board's audited financial statements for the year ended March 31, 1988 are reproduced in Volume 2 of the Public Accounts.

SUMMARY

OBSERVATIONS

Our current year's audit highlighted the following matters:

- **Improved cash forecasting could have reduced interest charges by more than $450,000.**
- **Excess bank service charges resulted from the use of multiple banks and inadequate verification procedures.**
- **Bookkeeping errors in inventory records amounted to $14 million.**

COMMENTARY

CASH MANAGEMENT

Improved Cash Forecasting Needed

At the beginning of each fiscal year the Board's Finance Division, in consultation with the Ministry of Treasury and Economics, prepares a schedule indicating

weekly remittances of net profits to the Treasurer of Ontario. This schedule is based on the previous year's schedule, adjusted for any known or anticipated fluctuations in cash flow. During the 1988 fiscal year the Board remitted $635 million to the Treasurer.

In 1986 we had reported that the Board was in an overdraft position, averaging approximately $6 million during the year, and had incurred interest charges of approximately $725,000. We had recommended a more careful monitoring of cash flows and periodic adjustments of profit transfers, in order to minimize overdrafts and the resulting overdraft interest charges.

Our current year's audit revealed that the Board's major bank account was overdrawn by more than $62 million as at March 31, 1988, and that overdraft interest charges for the year exceeded $3.5 million.

To the extent that the Treasurer's cash needs are reduced by the Board's excess transfers, the Treasurer's interest expense costs are proportionately reduced. However, the Treasurer can borrow money at a rate lower than the Board's bank overdraft rate. Consequently, **we estimated that overall the Ontario Government could have saved more than $450,000 during the 1988 fiscal year had the Board been able to eliminate the overdraft position.**

We noted that the Board was taking appropriate steps, in conjunction with the Ministry of Treasury and Economics, to adjust its profit transfers to the Treasurer. We also noted that the Board had eliminated its overdraft at the bank.

Review of Bank Service Charges and Overdraft Interest Recommended

During our 1986 audit we had recommended that the Board consider using one instead of six chartered banks to reduce bank service charges. In November 1987 the Board, through tender, awarded the bulk of their banking services to one bank but continued to maintain accounts, for store deposits, at five other chartered banks. **During the 1988 fiscal year this arrangement resulted in a small reduction in bank service charges at the Board's principal bank. However, 1988 service charges at the other five chartered banks increased by $223,000 to $1,526,000.**

Our discussions with Board management revealed that bank service charges were not regularly reviewed or verified. **We noted that in March 1988 one bank unilaterally increased its charges from $324,000 to $624,000 per year. The Board had not questioned this increase in charges prior to our audit.** However, we noted that the Board subsequently initiated action to reduce bank service charges at this bank.

We further observed that the Board had not verified the accuracy of the 1988 bank overdraft interest charges totalling $3.5 million. **On 10 occasions, involving errors of $1.2 million, the Board was either double-charged or overcharged by a bank. Nine of the errors were subsequently detected and corrected by the bank. The remaining error of $89,000, representing**

interest double-charged by the bank, was discovered during our audit. We were subsequently informed that the error had been corrected and the money refunded to the Board.

INACCURATE INVENTORY RECORDS

The Board's inventory of liquor, wine and beer, as at March 31, 1988, was valued at $182 million (cost). This inventory included goods in the LCBO stores, warehouses and goods-in-transit from suppliers.

To verify that the Board's inventory was accurately recorded, we performed test counts at all the warehouses and at a sample of stores. We subsequently traced the test counts to the Board's inventory records. **Our testing of these records revealed significant bookkeeping errors, both understatements and overstatements, totalling $14 million.** The most significant errors were adjusted for year-end reporting purposes.

The following is a sample of the errors:

- At the year-end, goods on hand totalling $4.7 million were inadvertently omitted from the Board's inventory records.
- Our testing of approximately 850 entries on the Board's foreign goods-in-transit listing identified 250 errors totalling $3.7 million.
- A journal entry for $1.5 million of foreign goods was entered twice in the records.
- We identified 28 errors, totalling $850,000, in approximately 100 domestic goods-in-transit orders.

Similar bookkeeping errors had been noted in prior years' audits. We again recommended that the Board establish and apply proper accounting procedures to ensure accurate inventory records.

RESPONSE

The Board's Chairman and Chief Executive Officer responded to our report on October 13, 1988.

CASH MANAGEMENT

Improved Cash Forecasting Needed

"We recognize the need for increased emphasis on cash and treasury management practices in our organization. Accordingly, we have taken the following corrective measures:

- *The Board of Directors, on June 14, 1988, resolved that borrowing money to meet transfer payment schedules is an unacceptable business practice and should be discontinued.*

- *We are presently reviewing the monetary transfer policy with officials of both the Ministry of Consumer and Commercial Relations and the Ministry of Treasury and Economics in order to enable us to make remittances only when funds are available.*

- *As of September 10, 1988, inventory investments have been reduced by approximately $39 million compared to the same period last year. This reduction has had a positive impact on cash flow resulting in the elimination of the bank overdraft as early as June, 1988.*

"In addition, we plan, by March 1989, to create a separate treasury function in the Finance Division to develop and implement a system to improve and monitor cash management practices so as to prevent situations identified in your report from recurring."

Review of Bank Service Charges and Overdraft Interest Recommended

"As indicated in your report, we have achieved a reduction in bank service charges related to our head office banking transactions through tendering and consolidating all receipts and disbursement activities into one concentration account. An improved deposit interest rate was also a result of this tendering process. The net increase in bank service charges, however, was a result of depository services provided to our stores by the banks throughout the province. As current banking agreements expire, we propose to tender all depository services in 1989 in order to further reduce service charges. In the interim period, corrective action has been taken concerning the bank which proposed a substantial increase in fee structure. We have transferred our business to another bank with a better rate, thereby reducing banking fees by $300,000 per year.

"As to the control weaknesses related to the bank charges, we have instituted the following measures:

- *The validity of all service charges is being verified monthly.*
- *The accuracy of service charge calculations is being checked.*
- *Supervisory review and approval of the above are being performed.*

"It is our view that the aforementioned steps will detect and rectify any calculation errors and invalid bank service charges."

INACCURATE INVENTORY RECORDS

"In view of the significant errors discovered, we will devote more attention to our fiscal year-end inventory valuation procedures and record-keeping. In this regard, we will implement the following:

- *Prior to the next fiscal year-end, formal procedures will be developed and clearly communicated to all departments involved in determining the financial statement inventory figures. The Finance Division will coordinate this initiative.*

The McMichael Canadian Collection

. *A more conscious effort will be made throughout the organization to ensure accurate and reliable inventory records are maintained. This will include periodic supervisory review and spot-checking of inventory valuation items."*

4.3
Acquisitions, Safeguards and Other Matters, The McMichael Canadian Collection

McMichael started with 163 works of art donated to the Province by Robert and Signe McMichael in 1965 and has increased its collection, through donations and purchases, to approximately 3,800 works in 1988. These works have been estimated by management, for insurance purposes, to be worth $100 million.

McMichael's total revenue and profits from ancillary income for the 1988 fiscal year was approximately $2.9 million which included $2.2 million in grants from the Province of Ontario and $.2 million from admissions fees from the 140,000 visitors. Total operating expenditure for the year was approximately $2.9 million.

SUMMARY

SCOPE AND OBJECTIVES

Our audit included an assessment of McMichael's procedures for the acquisition of works of art and for their care and control.

CONCLUSIONS AND FINDINGS

ACQUISITIONS

Satisfactory procedures were in place over the acquisition of works of art.

CARE AND CONTROL

Satisfactory procedures had been established to govern the care and control of works of art. However, one key control procedure, the annual physical inventory of works of art, had not been carried out since 1983.

OTHER MATTERS

The intended uses of works of art were not identified, nor had their exhibition histories been recorded until recently.

A management initiated study of McMichael's safety and security systems revealed major deficiencies.

McMichael's Capital Master Plan proposed a $54 million project with completion over the next five years.

COMMENTARY

ACQUISITIONS

Satisfactory Procedures

The focus of the collection, according to the McMichael Canadian Collection Act, is to be on art work and objects created by:

- Tom Thomson, Emily Carr, David Milne, A.Y. Jackson, Lawren Harris, A.J. Casson, Frederick Varley, Arthur Lismer, J.H. MacDonald, Franklin Carmichael;
- the indigenous peoples of Canada,

and other artists who have made contributions to the development of Canadian art and whose art work and objects will be consistent with the general character of the collection.

Works of art are acquired by McMichael through purchases or donations. Donors are issued income tax receipts for the appraised value, based on independent valuations obtained from qualified appraisers.

Acquisitions during the calendar years 1985 to 1987 are summarized below.

	1985		1986		1987	
	No.	Appraised Value	No.	Appraised Value	No.	Appraised Value
Donations	308	$ 334,000	116	$305,000	233	$ 600,000
Purchases	63	245,000	56	338,000	220	316,000
Total	371	$ 579,000	172	$643,000	453	$ 916,000

These acquisitions represent an increase of 36 per cent in the number of objects held in 1984.

Established criteria are used to assess whether works of art or objects should be added to the collection. These criteria include whether:

- The object is consistent with the legislated objectives of McMichael;
- The object will be displayed and used;
- The donor/vendor has clear title to the object; and
- The object is authentic and in sound condition.

McMichael's curator is responsible for authenticating the works of art. This entails visual inspection, examination of documentation supporting the work, tracing the history of ownership, and a comparison of works completed by the same artist in the same time period. McMichael's conservator also examines the work of art and prepares a report providing an assessment of its condition.

Each acquisition must be justified by the curator to an Acquisition Committee comprised mainly of Board of Trustee members. Once the object is approved by the Committee, and subsequently by the full Board, documentation to support the addition must be maintained on file.

The McMichael Canadian Collection

Our tests of acquisition procedures did not reveal any significant deficiencies.

CARE AND CONTROL

Adherence to Procedures

McMichael's Collection Management Policy provides for the care and preservation of the collection.

This Policy is consistent with the procedures recommended by the International Council of Museums. When a work is acquired it must be assigned an identification number and be described and photographed. Records are to be kept showing the current location of all works of art. A yearly physical inventory must be conducted and, in addition, at least two spot checks are to be made annually verifying the location of at least 50 objects. The Policy also requires a regular survey of the condition of all works displayed, loaned, shipped or conserved.

Our tests for compliance with these provisions of the Collection Management Policy indicated that one key control procedure, the annual physical inventory of works of art, had not been carried out since 1983. Further, the biannual spot checks of at least 50 objects were not being performed by management. We also noted that :

- the condition of works of art was being satisfactorily monitored; and
- identification numbers and descriptions existed for 30 works of art examined, but nine works acquired from 1984 to 1987 did not have photographs on file.

OTHER MATTERS

Intended Use and Display History of Works of Art Not Identified

One of McMichael's legislated objectives is to hold and display acquired works of art. In July 1988 McMichael held 3,800 works of art, and had on display approximately 750 works representing 20 per cent of its collection.

The main criterion used in acquisition decisions is whether the work of art will be displayed and used. However, according to management, works of art are also acquired for their holding (archival) value. We noted that **management information was not available to identify which works of art were acquired solely for archival versus display purposes.**

In addition, the registrar advised us that **information on the exhibition history of works of art has generally not been maintained. Our review of the files for 30 works of art indicated no history of display for 28 works.** Furthermore, at the time of our audit 15 of these works were not on display and the registrar could not remember when nine of the objects were last displayed.

One of the nine works of art was a painting by Lawren Harris which was acquired in 1980 with an appraised value of $50,000.

Recently, however, McMichael has started recording the exhibition history of its works of art.

Improved Safety and Security Systems Recommended

Between October 1981 and May 1983, McMichael was closed for major renovations costing approximately $11.5 million. Some of these renovations were made to improve security systems and to comply with the structural and safety standards of relevant authorities.

In October 1987 management initiated an external study of the effectiveness of safety and security systems. **The study, completed in November 1987, concluded that a major upgrading of the systems was required to meet acceptable and practicable standards.**

At the conclusion of our audit, management had implemented, or was in the process of implementing, the study's recommendations.

Capital Project Planned

In November 1987 McMichael hired a consulting firm to develop its Capital Master Plan to the year 2000. According to the Plan, the present log and stone structure will require costly renovations over the next 15 to 20 years unless the usage of certain galleries and wings is altered. The renovations will be necessary, in part, because the lifespan of the log walls and wooden roofs is being considerably shortened by the high humidity required by the art objects. The Plan also identified the potential for increased public use, and indicated the current and future space requirements for the growing art collection and for the staff and operations.

To address these issues the Plan proposed a four storey addition, which would provide a properly zoned and secure environment for the objects of art and the relocation of the collection's management and administration departments. The capital cost for this project was estimated in 1988 dollars to be at least $54 million. The project schedule indicated completion over the next five years.

The Board of Trustees approved the Plan in June 1988 and is proceeding with further studies to determine its feasibility. We were advised that the Plan had recently been submitted to the Ministry of Culture and Communications.

The Ontario Educational Communications Authority

RESPONSE

The Chairman of the Board of Trustees wrote to us on October 6, 1988, enclosing a copy of management's response to two of the matters raised in our audit report.

CARE AND CONTROL

Adherence to Procedures

"The control mechanisms as stated in the Collections Management Policy are goals which Management are trying to achieve; however, the 36% growth in collection, without commensurate growth in staff, has made the achievement of this objective somewhat difficult. Of the 3,800 works now in the collection, only about 150 are unphotographed. This small backlog will be completed within the 1988/89 fiscal year.

"While spot checks have been conducted each year with auditors, the McMichael acknowledges that a total inventory has not been conducted since 1983. The growth in the collections makes such a procedure impractical, if not impossible. McMichael will review its procedures and establish an acceptable mechanism for ensuring the immediate location of all items in the collection."

OTHER MATTERS

Intended Use and Display History of Works of Art Not Identified

"As indicated elsewhere in the audit report, one of the criteria for accepting a work in the collection of McMichael is whether or not 'the object will be displayed or used'. In order for a work to be <u>used</u> it does not necessarily have to be displayed. Many works are too fragile for frequent showing; others are collected to demonstrate a particular period of an artist's career (even though the work may not be artistically significant in itself). Such works are often 'used' by curators and other researchers and all are available for viewing by the public upon request.

"The 'History of Display' computer records on the collection is a new initiative of the McMichael. Such records were not kept prior to 1987. With the help of interns, the Registrar has been researching old exhibition and loan files to develop an exhibition picture for each work in the collection to be included on the computer data base. Considering the fact that this is a recent initiative on the part of McMichael, it was inevitable that some of the computer records would be incomplete."

4.4 Non-Compliance with Purchasing and Project Evaluation Policies, The Ontario Educational Communications Authority (TVOntario)

The Ontario Educational Communications Authority (Authority) operates under the Ontario Educational Communications Authority Act and federal licences. It produces and distributes learning resources to the people of Ontario, in English and in French, via its own television network and other related media.

Comments on Crown Agency Audits

The Authority's total expenditures for the 1988 fiscal year were approximately $59 million, of which $44 million represented grants from the Province of Ontario.

SUMMARY

SCOPE AND OBJECTIVES

In our audit of the Authority's English Programming Services, we assessed whether:

- procedures were satisfactory for the approval and monitoring of costs incurred in the production of programs;
- a competitive selection process was in place for the acquisition of services and materials related to the production of programs; and
- satisfactory procedures were established to measure and report on the effectiveness of programs produced.

CONCLUSIONS AND FINDINGS

APPROVAL AND MONITORING

Procedures over the approval and monitoring of costs incurred in the production of programs were satisfactory.

COMPETITIVE SELECTION PROCESS

Significant improvement was needed to ensure a competitive selection process was in place for the acquisition of services and materials related to the production of programs.

- **Tendering procedures were frequently not followed;**
- **Unusual circumstances were involved in the awarding of a $340,000 contract.**

EVALUATIONS OF PROGRAMS PRODUCED

Good procedures had been developed to measure and report on the effectiveness of the Authority's programs in providing educational and learning opportunities. However, in many cases, procedures were not being followed.

- **Six major projects, costing approximately $4.4 million in total, did not have the required evaluations.**

The Ontario Educational Communications Authority

MMENTARY

Background

The Authority spent $17 million in 1987 on English Programming. English programs for telecast are produced by the English Programming Services of the Authority.

The mission of English Programming Services is to provide educational and lifelong learning opportunities for Ontario residents through the creative delivery and utilization of effective television programs. English Programming Services addresses four markets: adult, children, part-time learning and youth. Total telecast hours for these markets during the 1987 fiscal year totalled over 5,000 hours.

APPROVAL AND MONITORING

Satisfactory Procedures

Prior to the upcoming fiscal year, the Authority's Board of Directors allocates development and production funds for programs for each market group. Ideas for new programs and budgets of anticipated development and production costs require approval by both the Market Director and the Managing Director of English Programming Services.

Costs of production are monitored through monthly project reports. These reports compare the most recently approved budgeted project costs with the actual project costs for each month, as well as the accumulated year-to-date costs. Monthly reports are reviewed and approved by the Production Manager.

Our testing of these procedures did not reveal any significant deficiencies over the approval and monitoring of program expenditures.

COMPETITIVE SELECTION PROCESS

Inadequate Tendering for Production Services and Materials

Tenders are required for all acquisitions over $25,000. According to Authority policy, acquisition of goods and services in excess of $2,000 requires at least three written quotations.

In the 1988 fiscal year, the Authority entered into six production contracts at a total cost of $1.2 million. Our review of the six contracts, which were each greater than $25,000, indicated the following:

- **Four contracts totalling $663,000 were awarded without tenders.**

- **There were several unusual circumstances involved in the awarding of another contract.** In December 1987, management approved a project to be produced internally for approximately $440,000. In January 1988, management decided to contract out the production of the project and invited tenders from three companies. During the first week of

February 1988, bids of approximately $332,000, $333,000 and $480,000 were received.

On February 12, 1988, a Programming official informed the Purchasing Office that he did not wish to accept any of the bids. **He stated that the one for approximately $480,000 was too high and that he was not comfortable with the expertise of the other two companies.**

Management permitted the company that had submitted the highest bid to submit a revised bid of approximately $344,000 on February 12, 1988. Management accepted the revised bid.

We noted that the President of the successful company was a former contract employee of the Authority between 1983 and 1986.

The Authority spent approximately $2.3 million in the 1987 fiscal year on production-related expenditures. We reviewed 15 of these purchases, totalling approximately $500,000. Seven were for amounts greater than $25,000 and eight were between $2,000 and $25,000.

- **Four of the seven purchases in excess of $25,000, totalling approximately $300,000, were not tendered.**

- **Written quotations were not obtained for two purchases between $2,000 and $25,000.**

In addition, in two of the three purchases in excess of $25,000 which had been tendered, **the Authority had invited several companies to tender rather than advertising the tender as being open to all interested, qualified suppliers.** Without the benefit of periodic advertised tenders, the Authority may not be aware of new, qualified suppliers and conversely, such companies may not be aware of the opportunities to demonstrate their capabilities to the Authority.

We recommended that for purchases over $25,000, more open, competitive procedures be used and the circumstances for their use be included in the policy.

EVALUATIONS OF PROGRAMS PRODUCED

Non-Compliance with Major Projects Policy

The Authority has a Project Research Office comprised of six staff who are primarily responsible for evaluating programming projects.

Initial (or formative) evaluations are carried out at an early stage on new projects to provide guidance to production staff in modifying and improving the projects before final production decisions are made. Such evaluations include the testing of concepts, scripts and characters. Based on these evaluations, changes can range from minor editorial revisions to the outright cancellation of further program episodes.

Evaluations are also carried out on completed projects (summative evaluations) to determine their impact on the target audience and to verify that stated program objectives have been met. The main aspects examined are educational effectiveness, overall appeal and potential use in various circumstances.

According to Authority policy, each major programming project is to have an evaluation component. This policy requires that initial evaluations be done in all cases and that evaluations, in some form, be done on completed projects. A project is defined by the Authority to be "major" when its cost is $500,000 or more.

For the 1985 to 1987 fiscal years the Authority produced and co-produced 178 projects at a cost of $34.2 million. Eighteen of these projects, each costing over $500,000, totalled $19.5 million and were funded solely by the Authority. A summary of evaluation activities done for these major projects is as follows:

	No.	$ Millions
Both initial and post-completion	4	6.6
Initial only	8	8.5
Post-completion only	0	0
Neither initial nor post-completion	6	4.4
Total	18	19.5

As indicated by the summary, the Authority's evaluation policy for major projects had not been fully implemented for 14 projects costing $12.9 million.

PONSE

The response from the Chairman and Chief Executive Officer of The Ontario Educational Communications Authority included the following comments.

GENERAL

"Our intent is to place the Provincial Auditor's findings in an appropriate context. TVOntario is first and foremost a producer and broadcaster of educational television programs. Each year TVOntario produces over 600 hours of original programming in both the English and French languages, and broadcasts over 10,900 hours of educational television to 97% of Ontarians of whom 2.2 million are regular weekly viewers. The findings of the Audit report which relate to a relatively few isolated incidents should be considered in this context.

"TVOntario believes in its (external results), in particular its positive 'feedback' from viewers and members. Meanwhile, it has made substantial improvement in overall management control and accountability 'inside' over the recent past. Its achievements in this field have been acknowledged by the Provincial Auditor, and endorsed by TVOntario's Board of Directors at the 3 June 1988 Board meeting. TVOntario has always been a staunch supporter of the goals and procedures of the Provincial Auditor and welcomed that agency's decision to undertake operational audits. The audit of English Programming Services is the first audit

of this kind at TVOntario. Operational audits, as distinct from Financial Audits, require extensive knowledge and understanding of the business to be useful and helpful."

COMPETITIVE SELECTION PROCESS

General – TVOntario's Tendering Process

"... TVOntario believes that its practices follow bidding and selection procedures which are appropriate to the television industry. In 1987/88, TVOntario issued 18 tenders totalling $2.5 million. Nevertheless we recognize that in one isolated case, TVOntario policy was not followed by a recently appointed manager. TVOntario moved immediately to rectify the situation on the basis of legal advice. Because of this single case, purchasing policies and procedures are once again being reviewed to ensure clarity and consistency with government guidelines."

Inadequate Tendering for Production Services and Materials

"With one exception which involved a violation of policy and which TVOntario has acknowledged as an error, TVOntario feels that its procedures have been, by and large, fair and competitive, given the nature of the television production industry and the requirement for specialized creative services.

"TVOntario acknowledges the need to revise its policies and accepts the principle of open tendering for standardized goods and services.

"... (Three of the four contracts totalling $663,000) were awarded to a production company which had been selected previously through a tender process for its three-dimensional graphics animation technique ....

"The concepts of 'follow-on assignments', and 'unique qualifications' are recognized in the Management Board Guidelines as reasons to waive a competitive process, and will be incorporated in the revisions to the tendering policy.

"The fourth contract ... was awarded to the production company which produced the previous series in order to maintain continuity of production style.

"TVOntario acknowledges that tendering policy was violated unknowingly by a recently appointed manager. The 'unusual circumstances' stemmed from attempts by TVOntario management to rectify the situation as much as possible without engendering legal action.

"The original error was made in implying to a production company that it would receive a production contract when no tendering process had been carried out. TVOntario attempted to get competitive bids notwithstanding the implied commitment. TVOntario did succeed in reducing the cost of the production by $136,000 to a point where it was comparable to the other bids.

"TVOntario submits that this is one isolated incident that would not have occurred if TVOntario tendering policy had been followed.

"To help avoid such problems in the future, all new production employees will receive a digest of key policies in this area, as well as instructions to refer any questions to senior management. All managers are being reminded of the potential legal ramifications of verbal commitments without the appropriate tendering and contractual documentation having been prepared.

"(Regarding four of seven purchases in excess of $25,000), two of the four purchases refer to the purchase of production studio services. TVOntario periodically surveys available production studio capacity in the Toronto area, and evaluates its suitability in the context of rates, volume discounts, time period availabilities and facilities offered. The particular studio selected enabled TVOntario to utilize its existing transportable studio equipment facility and enjoy favourable rates and availabilities.

"The other two purchases refer to film laboratory services. TVOntario has blanket orders with all major processing laboratories in Toronto. Orders for individual projects are placed on the basis of quality, delivery, service, and competitive price. In some cases, producers will have a preference for particular processes which are unique to that laboratory.

"TVOntario submits that these services are highly specialized, requiring extensive technical knowledge of the industry and of qualified suppliers, and as such, they are not appropriate for formal or open tendering, because of the administrative costs involved for all parties.

"(Two) purchases (between $2,000 and $25,000) refer to the construction of sets; one for 'Science Edition' at $5,000, and one for 'Today's Special' at $13,000. TVOntario employs a Manager of Set Design, who is a specialist in the design and construction of sets, and who has extensive knowledge about set suppliers in the Toronto area. In the case of 'Science Edition', the price was negotiated, but time did not permit obtaining written quotations (a condition which is recognized in Management Board Guidelines). In the case of 'Today's Special', the original set design was tendered. This contract was placed with the original supplier in order to maintain continuity of set design."

EVALUATIONS OF PROGRAMS PRODUCED

General – TVOntario's Evaluation Practices

"The issue of evaluation is . . . complex. TVOntario's educational 'Learning Systems' programs dominate the most competitive of international markets. In the past three years, TVOntario has won 49 awards, and has sold its programs in over 50 countries. It is not an accident that so small and financially strapped an institution can achieve such world acclaim. It is because our process of evaluation is perhaps the most intensive of any broadcaster in the world, and we are being evaluated by our customers and viewers every minute of every day.

Comments on Crown Agency Audits

"If the Provincial Auditor is aware of another institution in the private or public sector that is more effective in this regard, we would appreciate having our attention directed to it.

"Specifically, TVOntario, consistent with its mandate, engages in three kinds of research, all of which have an impact on the effectiveness of programs. These include ongoing developmental research which looks to the future and provides information concerning long-term programming needs; project research which includes both formative and summative evaluations of current productions; and, market research which looks at the learning needs of our audience as well as the extent to which programs are used.

"In addition to this formal research TVOntario obtains feedback on program effectiveness through extensive consultations and workshops with classroom teachers, discussions with ministry officials and curriculum specialists, advice from advisory councils, participation in program competitions, and 'feedback' from purchasers around the world.

"Moreover, TVOntario, as a broadcaster, is very sensitive to public opinion, and dependent upon the continued goodwill and support of viewers."

Non-Compliance with Major Projects Policy

"There is a difference of opinion between TVOntario and the Provincial Auditor concerning the application of the Major Project Review policy, and Research and Evaluation policies. TVOntario acknowledges the need to further clarify these policies and is undertaking a review. Because of financial constraints, TVOntario must exercise judgement over which projects are evaluated. These decisions are taken jointly by Program Research and the Programming areas concerned.

"The projects for which neither formative nor summative evaluations were done were as follows:

1. *'Paths of Development' was a co-production with ACCESS Alberta, who was the major producer and had the primary authority to undertake evaluative research.*

2. *'R2000' was an externally funded project developed with the support of the funders and made use of their extensive research. 'R2000' won the National Educational Film and Video award in California. 'R2000' had the greatest Canadian Marketing volume for a Part-Time Learning series. Summative research from similar telecourses was used during the development of the series.*

3. *'Speaking Out' is a successful ongoing series. The format has evolved over several years and enjoys considerable audience response. The average annual budget for 'Speaking Out' is $262,000 for 29 shows. TVOntario does not consider 'Speaking Out' to be a major project in the context of the policy on Major Projects Review.*

4. *'People Patterns' has been a successful ongoing series. The format has evolved over several years, and enjoys considerable success with audiences in rural and remote areas of Ontario. The average annual budget for 'People Patterns' was $306,100 for 14 shows. TVOntario does not consider 'People Patterns' to have been a major project in the context of the policy on Major Projects Review.*

5. *'Fish-On', while a major project, was a continuation of an already successful format. In its time, it was the second most successful Part-Time Learning series in terms of student registrations. It was also a very successful series in terms of Canadian sales. The total cost of 'Fish-On' was $521,500 over 2 years.*

6. *'Energy- - Search for an Answer' was produced in 1982. To the best of our knowledge formative and summative evaluations were not undertaken because of short production time lines and limited evaluation resources. The series won several awards . . . New York International Film Festival - Bronze, Houston Film Festival - Gold, and the Birmingham International Film, and continues to sell well in the U.S.*

"The projects for which formative but not summative evaluations were . . . undertaken are noted below. Formative research is considered to be more critical in terms of its potential effect on a particular series. In some cases, follow-on formative research is undertaken.

1. *'Tales of the Blue Crystal'. Extensive formative research was undertaken on the pilot programs. The series was very well received in the schools.*

2. *'Aunt Agnes'. This series is considered to be very successful. Extensive formative research was done on the pilot in 1984. It is an ongoing series, produced over 4 years at an annual average cost of $399,725. It was not considered to be a 'major project' in the context of the policy by TVOntario.*

3. *'Origins'. There were two formative evaluations after the first programs were produced. There was extensive testing of various aspects of the shows and various modifications were undertaken. The series was very well received in schools and with the general public.*

4. *'Not Another Science Show'. Produced as a continuing series because of its success with audiences. Two formative evaluations were undertaken. Summative evaluation was considered a low priority due to limited resources.*

5. *'Magic Shadows'. A long-running successful format employing serialized movies with Elwy Yost. It was not considered a priority for summative evaluation due to limited resources.*

6. *'Realities'. It was a successful long-running series. Several formative research studies were undertaken. Summative research was not considered to be a high priority due to limited resources.*

7. *'Money$worth'. It was an ongoing successful series which attracted underwriting support. Several formative research studies were undertaken.*

8. *'Modern Middle East'. This was a major project with extensive formative research done by TVOntario. This series, on a very sensitive and difficult subject, generated favourable audience response."*

4.5 Potential for Cost Savings, Ontario Northland Transportation Commission

The Ontario Northland Transportation Commission provides a variety of transportation and communications services in Northern Ontario. The Commission's consolidated financial statements for the year ended December 31, 1987 are reproduced in Volume 2 of the 1987/88 Public Accounts.

The Rail Passenger operations of the Commission are fully subsidized by the Province of Ontario. In 1987, the Ministry of Northern Development and Mines provided subsidies to the Commission of $24.8 million of which $18.1 million related to Rail Passenger Services.

SUMMARY

SCOPE AND OBJECTIVES

In conjunction with our 1987 audit of the Commission, we conducted a value for money review of its Rail Passenger operations. Our objective was to assess whether Rail Passenger Services were being provided in an economical manner.

CONCLUSION AND FINDINGS

Rail Passenger Services could be provided more economically. On the main-line day train (the Northlander) opportunities existed for both raising additional revenues and decreasing operating costs. Required Government subsidies could be reduced by $2 million annually through consideration of the following measures:

- **Increasing passenger fares commensurate with increases in operating expenditures.**
- **Reduction in service in view of the available alternate modes of transportation.**
- **Replacement of the full service dining car with a snack service.**
- **A re-negotiation of trackage charges with the CN.**

We also noted:

- **16 of the 23 passenger cars being refurbished by the Commission at a cost of $24 million may sit idle for as long as eight months of the year unless alternate uses are found for them.**

Ontario Northland Transportation Commission

COMMENTARY

Overview

Under the authority of the Ontario Northland Transportation Commission Act, the Commission employs approximately 1,500 people to provide passenger and freight transportation services, local and long distance telephone services and tourist operations in Northeastern Ontario.

The Rail Passenger Services of the Commission include the main-line and the Moosonee branch-line service which combined, generated passenger revenues of $5.1 million in 1987. The main-line Rail Passenger Service consists of the "Northland" and the "Northlander" trains which operate between Northeastern Ontario and Toronto. The Northland train is a joint venture with VIA Rail and operates nightly between Toronto and Kapuskasing; VIA operates the Northland from Toronto to North Bay and the Commission runs it from North Bay to Kapuskasing. The Northlander, a day train, operates six days per week between Toronto and Timmins with North Bay as its mid-point terminal.

The Moosonee branch-line service extends from Cochrane to Moosonee. This service includes the "Little Bear Express" , a combined freight and passenger train which runs three times a week, and the "Polar Bear Express", a tourist excursion train operating six days per week for ten weeks during the summer.

Potential for Increase in Fares

During the 1987 fiscal year, the Northlander carried approximately 56,000 passengers. Operating revenues and expenditures during the 1987 fiscal year amounted to $1.4 million, and $6.5 million, respectively.

Fares for the Rail Passenger Services are established according to the Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines. The existing Memorandum requires that fares charged for non-commercial services such as Rail Passenger Services, "shall be in accordance with industry standards". Furthermore, the Memorandum states that the Commission "shall ensure that adequate rate increases are proposed for non-commercial services such that revenues are increased at the same rate as any growth in operating expenditures".

Our review of passenger fares for the Northlander revealed that between 1980 and 1983, the rate in growth of fares exceeded the percentage growth in expenditures. However, between 1984 and 1987, the reverse occurred, resulting in Northlander fares falling below industry standards.

A comparison of fares charged by the Northlander with those charged by the bus and the nightly Northland along similar routes indicated that Northlander fares were the lowest. Furthermore, since 1978, this gap has continually widened. For example, the fares charged by the night train from Toronto to Kapuskasing, which in 1978 were significantly lower than those of the Northlander, are now between 5 and 33 per cent higher.

According to our calculations, **approximately $375,000 in additional revenues could have been realized over the past two years if passenger fares had been increased at the same rate as the increase in operating expenditures.**

At the conclusion of our audit, in February 1988, the Commission submitted a letter to the Ministry recommending fare increases for the Northlander over the next several years to bring the fare structure in line with the bus and the night train services. Effective March 21,1988, the Ministry approved increases to the Northlander fares.

Potential Savings from Reduction in Northlander Service

The Northlander began operating in 1977, seven days per week between Toronto and Timmins including a same-day return service between Toronto and North Bay. However, in 1979, service was reduced to six days per week, excluding Saturdays. Since then, the Northlander schedule has remained relatively unchanged although its annual ridership has risen from approximately 49,000 persons in 1980 to 56,000 persons in 1987.

Our review of the Northlander schedules and a comparison of other available modes of transportation indicated that there is considerable duplication of service along the Toronto/Timmins corridor. For instance:

- The VIA/Commission train (the Northland) operates nightly between Toronto and Kapuskasing with connecting bus service to Timmins.
- Gray Coach and the Commission jointly operate a daily bus service between Timmins and Toronto.
- VIA Rail operates a weekender service (Fri./Sat./Sun) between Toronto and North Bay. Consequently, on Fridays, three trains depart from Toronto for North Bay, and on Sundays, three trains depart from North Bay for Toronto.
- Gray Coach operates four north and south bus runs each day between Toronto and North Bay .
- Commission buses run twice daily between North Bay and Timmins and once daily from North Bay via Cochrane to Hearst. These runs compete directly with the Northlander for ridership.

An analysis of the weekly Northlander ridership revealed that on Tuesdays and Wednesdays, the Northlander operated at less than half of its 114-passenger capacity 55 per cent of the time between Toronto and North Bay, and over 80 per cent of the time between North Bay and Timmins.

Given the low ridership on certain days of the week, we recommended that reducing Northlander service would not cause unnecessary hardship to the public and would also improve ridership on the Commission's bus service which

currently breaks even. For example, **by cutting the Northlander service from six to five days per week, we estimated that operating costs, and therefore Government subsidies, could be reduced by approximately $750,000 a year.**

We acknowledged that the decision regarding the level of service provided ultimately rests with the Minister of Northern Development and Mines. Therefore, we recommended that the Ministry review the scheduling of the Northlander, given that alternate modes of transportation would still be available.

Reassessment of Food Service on Northlander Warranted

The Northlander provides a dining car service offering full-course breakfast and dinner menus. The dining car is currently staffed by a crew of four persons comprising a chef, steward and two waitresses. During peak periods, an additional person is generally required.

Although ridership levels have remained relatively unchanged since 1983, losses from the dining car service have increased 30 per cent, from $614,000 in 1983 to $805,000 in 1987.

A study conducted by the Commission in February 1986, revealed that during 1985, an average of only 13 per cent of all Northlander passengers had purchased full-course, chef-prepared meals. Our analysis revealed that the situation in 1987 had remained relatively unchanged with the Government subsidizing approximately 80 per cent of the cost of chef-prepared meals.

A review of dining car facilities offered by other carriers, indicated that VIA Rail does not provide a full-course dining car service for all its routes. For example, on VIA's run from Montreal to Chicoutimi, a journey that takes 9.5 hours, only a snack car service is provided.

If the full-course dining car service on the Northlander were replaced by a snack service, we calculated that the Commission could save approximately $250,000 per annum in labour and food service costs.

We felt that the practice of providing full-course dining car service was uneconomical and warranted reassessment.

High Trackage Charges Noted

The Canadian National Railways (CN) owns the railway tracks between Toronto and North Bay and charges trackage fees for use of its lines. VIA Rail pays the trackage fees for the Commission/VIA operation of the Northland. The Commission pays the trackage charges for the operation of the Northlander along the same route. The trackage charge represents a charge-per-mile of track used and includes the costs of contracting CN train crews, ticketing and station services, maintenance of tracks and signals, and train dispatching.

In 1985, the Commission paid CN $17.40 per mile, increasing the payment to $18.80 per mile in 1987. Total trackage charges paid to CN for the year ending December 31, 1987, totalled $2.6 million, although a portion of this was reimbursed by the National Transportation Agency of Canada.

In October 1986, a joint study on the Commission's operations revealed that while CN was charging VIA $11 per mile, it was charging the Commission 66 per cent more or $18.25 per mile, for the use of the same track between Toronto and North Bay. Moreover, the 80 per cent subsidy paid by the National Transportation Agency for trackage charges was calculated on the $11 per mile paid by VIA and not on the actual amount of $18.25 paid by the Commission.

According to our estimates, the 1986 trackage charges, and therefore the provincial subsidy, could be reduced by $870,000 per annum if the Commission could negotiate the same trackage rates as paid by VIA.

We were informed that management was trying to negotiate lower trackage charges with CN.

Observations Noted - Passenger Car Conversion Project

In 1984, Management Board approved the Commission's proposal to purchase 20 used passenger cars from GO Transit at a cost of $4 million. The submission to Management Board indicated that the 20 cars and 3 Commission-owned, auxiliary electrical power unit rail cars would need some additional work to make them suitable for inter-city travel. Aided by a consultant, the conversion and refurbishing of the cars was to be carried out by the Commission's employees at their own facilities in North Bay. **The cost of converting and refurbishing the passenger cars and the auxiliary units was estimated at $24.4 million, with completion expected by the end of 1989.**

Our review of the Management Board submission and other documentation relating to the conversion project revealed the following:

- There was no indication from a review of the Management Board submission that alternatives, such as leasing or purchase of new cars, were considered.

- There was no evidence to suggest that the decision to convert and refurbish the passenger cars in-house rather than contracting the work to the private sector was, in fact, the most economical option.

- A U.S. firm of consultants was selected to assist in the conversion of the cars at an estimated cost of $1 million. As of November 1987, approximately $1.9 million had been paid to this firm. We noted that the Commission in its selection of consultants did not go through a tendering process. We were informed by management that this firm was selected for its "expertise" as it was the only one in North America that had previously worked on a similar conversion project.

Ontario Northland Transportation Commission

The Management Board submission also advised that the purchase of the 20 passenger cars was necessary to replace the Commission's "aging fleet" which was between 36 and 49 years old. The refurbished cars were to be used on the "Polar Bear Express" and the "Little Bear Express" trains which operate between Cochrane and Moosonee, and on the Northland train between Toronto and Kapuskasing.

In this regard, we also noted:

- The converted cars could not be used on the nightly Northland since they would not be compatible with the existing night train equipment of VIA Rail.

- **Since the "Polar Bear Express" is only utilized for 10 weeks in the summer months, and as only seven cars are required for the "Little Bear Express", we estimated that potentially 16 of the 23 cars may stand idle for as long as eight months of the year.**

We were informed by management that alternatives would be pursued to ensure that the passenger cars were fully utilized in the future.

Adequate Staffing Levels

We reviewed the staffing levels for station and train crews which included ticket office personnel as well as engineers, brakemen and conductors who operate the trains. We concluded that the staffing levels compared favourably with those of other railway companies.

RESPONSE

The following response was received from the Chairman of the Ontario Northland Transportation Commission on October 18, 1988.

Potential for Increase in Fares

"Rail Passenger Tariffs are reviewed at least annually to determine the appropriateness of the rates being charged. These reviews take into account all aspects of rate making including cost escalation, the elasticity of demand, rates charged by other competitive modes (air, bus), (and) rates charged by non-competitive carriers (VIA).

"The determination of costs is usually done after the fact and based on previous years' expenditures. Because of this, rates charged are often out of synchronization with costs by one year.

"Other factors affecting rate changes during the period were wage and price freezes during the early '80s when inflation was running in double digits.

"Taking the last ten years into consideration, the increases in both costs and revenues have been nearly equal.

"We agree if larger increases had been applied in 1986 and 1987, additional revenues would have been earned and that is why the larger increases for 1988 were recommended and adopted."

Potential Savings from Reduction in Northlander Service

"The service being provided is based on the level believed to be most appropriate in the circumstances and in accordance with the direction provided by the (Ministry of Northern Development and Mines). Reduction in service would obviously reduce costs and income to O.N.T.C."

Reassessment of Food Service on Northlander Warranted

"The policy of full dining car service has been in effect since this train service was inaugurated in 1977 and this policy has been confirmed each year by (the Ministry).

"In concert with the Ministry, a review of all service has been underway for some time."

High Trackage Charges Noted

"The amounts paid to C.N. for use of their trackage and some station facilities between North Bay and Toronto are negotiated periodically and are considered to be a fair rate for the facilities provided.

"The comparison with what VIA pays is not considered valid since the VIA rate is based on an artificial amount determined by historical values and averaged on cross-Canada expenditures."

Observations Noted - Passenger Car Conversion Project

"The final decision to proceed with this project was made after many man hours of research and examination of alternatives. In examining the background, one has to keep in mind that there were no private sector manufacturers of inter-city rail passenger cars in operation. There were some who stated that they would be willing to take on the task but they were expensive and did not have any expertise or experience.

"Our consultations with the American firm AMTRAK indicated that what they were doing in their shops with their employees was a feasible and practical way of reproducing 'like new' modern inter-city railway passenger cars.

"At the time when it was decided to proceed with this project, VIA Rail was also researching the possibility of acquiring new equipment at the time but for various reasons kept postponing their decisions. We did anticipate, however, that their decision would be to have equipment that would be compatible with what we are producing.

The Public Trustee of the Province of Ontario

"Although VIA have still not finalized their equipment plans we still expect the equipment will be interchangeable.

"Regardless of VIA's decision, O.N.T.C. will utilize the equipment to its maximum.

"The selection of AMTRAK for consulting services was made on the basis that they were the only organization in North America which had proven, up-to-date technology on inter-city rail passenger equipment. The amounts paid to AMTRAK in total are near the original estimates, taking into account the inflation factor and the drop in the value of the Canadian dollar since the initial proposals were done."

4.6 Administrative Improvements Required, The Public Trustee of the Province of Ontario

The Public Trustee performs duties under 29 separate Provincial statutes and is responsible primarily for administering the estates of mentally incompetent individuals.

In the 1988 fiscal year, the office earned a total revenue of $14.4 million from interest earnings and administration fees. After expenses a net income of $7.7 million was realized. The audited financial statements of the Public Trustee for the year ended March 31, 1988 are reproduced in Volume 2 of the Public Accounts.

SUMMARY

OBSERVATIONS

During our current year's audit we noted that:

- **heavy workloads of Trust Officers had resulted in administrative errors and poor servicing of clients' files;**
- **many estate files had not been discharged in an efficient and timely manner;**
- **the mandate of the Public Trustee for the supervision of charitable organizations was unclear; and**
- **there was a general lack of awareness that the Public Trustee supervises the operations of charitable organizations.**

COMMENTARY

ESTATES AND TRUSTS

Overview

Currently the office of the Public Trustee is responsible for administering approximately 23,000 estates and trusts having assets valued at $360 million. Each year the office staff of 159 processes an estimated 750,000 financial transactions for these estates and trusts.

Improved Administration Needed

Responsibility for the proper management of assets of each estate or trust is assigned to a Trust Officer. During our audit of a random selection of estate records, we noted the following examples of administrative weaknesses:

- A client's file indicated that the estate included a house with a value of $300,000 at the time the Public Trustee assumed administrative responsibility. However, this asset was not recorded in the accounting records.

- Mutual funds, held by a brokerage house and valued at $59,000, were not recorded in the client's estate records.

- In the case of five estate files in the process of being closed, the Public Trustee was unaware that the clients had died several years before. As a result, the office had to refund $253,000 in overpaid Old Age Security and Canada Pension Plan benefits to the Federal Government.

- Cash of $24,000, received by the Public Trustee in March 1985, remained in a non-interest bearing clearing account until May 1988. The money, along with accrued interest, has since been transferred to the client's estate.

- Monthly interest payments, totalling $21,000 for some 29 months, were being held by a client's bank awaiting direction from the Public Trustee. It was only after our investigation that the Trust Officer took action to recover the money.

The above examples tend to support the Public Trustee's statement, made in his Annual Report for the 1987 fiscal year, that "I do not feel that the office is providing an acceptable level of service at present".

In the 1988 fiscal year, for example, 18 Trust Officers were responsible for managing over 15,000 estates. This means that during a normal work year, a Trust Officer could spend on average a maximum of two hours per file. However, many files require two to three weeks' work per year. Consequently, many files may not be examined and others may receive only a superficial review. This could lead to unintentional mismanagement of some estates.

The complement of Trust Officers has remained relatively constant, while at the same time the volume and complexity of estates have continued to rise. This increased workload has prevented the Trust Officers from routinely reviewing the estates under their responsibility.

We suggested an independent review of the office's current estate administration practices, in order to determine if further efficiencies could be effected in the various duties and routines followed by the Trust Officers.

The Public Trustee of the Province of Ontario

Backlogs in Discharging Estates

The Public Trustee ceases to manage a client's estate when the client dies or is deemed to have become mentally competent. The Public Trustee is required to provide an accounting of his management of the estate before the estate's assets are returned to the client, or to the executor or administrator of the client's will. In addition, before distributing the estate's assets and closing the file, the Public Trustee must locate the appropriate individuals and ensure they are legally entitled to receive the assets.

Estate files are discharged by a staff of 12 within the General Services Section. **As at March 31, 1988 approximately 1,800 estates were awaiting final distribution of assets. Over 525 estate files, or 30 per cent of the total, indicated that the Public Trustee's jurisdiction had terminated over a year ago.** An examination of 22 of the oldest estate files indicated that 17 files contained no recent correspondence or any information as to the current status of the estate.

We recommended that monitoring procedures be reviewed to ensure that files are discharged in a more efficient and timely manner.

CHARITIES

Mandate in Monitoring Charities Unclear

The Charities Accounting Act and the Charitable Gifts Act provide the Public Trustee with a general supervisory role over charitable corporations, associations, executors, administrators and trustees of charitable funds. **However, the legislation governing the monitoring of charities is not straightforward and provides little specific direction on the duties of the Public Trustee, other than conferring the power to investigate a charity upon order of the court.**

Consequently, based on precedents set in common law and practice, the Public Trustee has assumed responsibility for "policing" the estimated 35,000 charities, the majority of which are church groups. For instance, over the years the Public Trustee has assumed a responsibility for ensuring that donations made by the public, including those made as bequests, are received and used by the organizations for charitable purposes. Currently, this responsibility is carried out in the Charities Section by a staff of seven, including two lawyers. The Section's legal and financial resources are inadequate to monitor the ongoing use of donations by charities. Rather, the majority of their resources are spent on pursuing charities alleged to have misused their donations.

Our review of the Section's operations revealed limited monitoring of the receipt and use of donations by charitable organizations. For example, we noted that:

- While charities must provide the Public Trustee with annual financial statements, the Section had files on only 5,000 of the estimated 35,000 charitable organizations in Ontario. Many of these files contained outdated financial or management information; and

- Many charitable organizations mentioned in wills were not notified of potential bequests. Of those that were notified the average delay was eight months.

The Public Trustee is currently attempting to obtain financial and management information from each charity operating in Ontario. However, given available staff, it is questionable whether much can be done with this information. For instance, to review and monitor the information submitted would require the Section to review 140 files per day besides the 2,500 wills it receives annually.

The Public Trustee is well aware that the current resources assigned to the Charities Section are insufficient to fulfill the assumed mandate. As the number of files and charities increase, the backlog will worsen. In response to these problems, the Public Trustee has attempted to obtain additional resources and to computerize some of the office's functions.

We felt that, before additional resources were assigned, a more specific direction outlining the degree of government involvement in the affairs of charitable and religious organizations would be necessary. Accordingly, we recommended that the Public Trustee, in conjunction with the Attorney General, clarify his legislative mandate by defining the extent to which charitable organizations should be monitored and by whom.

Lack of Awareness of Office's Supervisory Role

As previously indicated only seven full time employees are assigned to "police" the approximate 35,000 charitable organizations operating in Ontario. Consequently, the Public Trustee must rely, to a certain extent, on complaints from the general public in order to monitor charities.

In discussing the use of public complaints, as a means of highlighting potential problem charities, we were informed that few complaints were received. In fact, the Public Trustee did not maintain any statistics on the number of calls or letters received.

Using the general enquiry numbers in the Metropolitan Toronto Telephone Directory, we tried to determine how a member of the public could register a complaint regarding a charitable organization. We specifically contacted the Ministry of the Attorney General and the Ministry of Consumer and Commercial Relations. After being directed to various provincial offices, we were finally referred to the Better Business Bureau.

We were informed by the Better Business Bureau that it received approximately 7,000 charity related enquiries each year. However, the Bureau indicated that it had no authority to investigate any complaints, and could only advise the public of the number of enquiries received for a particular charity. Although the Public Trustee has legislative authority over charities, no referral to his office was ever made during our enquiries.

The Royal Ontario Museum

Improved awareness of the Public Trustee's role in the operation of charities could provide an added means of monitoring these operations. The benefits would be twofold - the Public Trustee's office would become more aware of potential problem charities, and the charitable organizations would become more accountable in ensuring that their operations were properly conducted.

RESPONSE

The Public Trustee responded to our comments and recommendations on October 13, 1988.

"... I am aware of the issues identified and am dealing with the report as quickly as possible to ensure they are corrected by December, as far as existing, approved resources allow. I must point out that there are some workload issues identified in the report which quite simply require additional staffing to correct, such as backlog in Discharging Estates and improvements needed in Estates Administration.

"Over the last year, significant improvements have already been made to this operation through several major changes; re-organization of staff, careful assessment of the way in which we do business and an even more careful application of the limited funding available to us. So many of our achievements to date have been made possible through the dedication of my staff to the operation and the clients we serve.

"In order to carry out further crucial improvements, which include the problems in this report, I will be requesting additional staff in the near future."

4.7 Improved Controls and Data Security Recommended, The Royal Ontario Museum

The objectives of the Museum are to collect and exhibit objects and documents to illustrate natural history and the history of man, to operate a planetarium and to promote education, teaching, research and publication in these fields.

With total assets of $20.7 million on June 30, 1987, the Museum had operating revenues and expenditures for the year totalling $21.3 million and $21 million, respectively. The annual audit of this Crown-controlled corporation is performed by a public accounting firm.

SUMMARY

OBSERVATIONS

In their management letter to the Museum for the fiscal year ending June 30, 1987, the auditors referred to the following matters, some of which were being repeated for the second consecutive year:

- **Inadequate invoicing procedures could result in errors or misappropriation of funds.**
- **Accounting procedures would fail to detect missing cash reports and receipts.**

- **Internal controls over donations were weak.**

- **The lack of off-premises storage for back-up computer files leaves the Museum vulnerable to the total loss of accounting information.**

COMMENTARY

WEAK CONTROLS OVER INVOICING AND CASH RECEIVED

Certain departments issue invoices for goods or services provided to outsiders. Payments made were being directed to the servicing department rather than to Accounting. This poor segregation of duties within departments was compounded by the fact that Accounting was not following up on the serial continuity of invoices issued by the various departments. This situation could result in accounting errors or the misappropriation of funds.

The auditors recommended that all departments use the newly-available invoices which indicate that payments are to be made directly to Accounting. The old invoices should be destroyed and a procedures manual written for use by all departments to ensure consistent preparation of invoices. In particular, all used and void invoices should be sent to Accounting. To follow-up on the serial continuity of all invoices, Accounting should utilize the available control log.

INADEQUATE MONITORING OF CASH REPORTS

The Museum generated approximately $2 million in income from its admissions, gift shops, Members' Lounge, and other areas. A pre-numbered cash report of each day's total sales is submitted by every department to Accounting, together with the receipts for deposit.

Accounting had no procedures for following up on missing cash reports. Therefore, missing cash reports and receipts could have gone undetected.

The auditors recommended that Accounting better control the issuance of sequential, pre-numbered cash reports. Also, Accounting should regularly follow-up to ensure departmental staff use the reports in numerical order and forward all used and void cash reports.

WEAK INTERNAL CONTROL OVER DONATIONS

During the 1986/87 fiscal year, the ROM Galleries Campaign received $2.8 million in bequests and donations. At the time of the audit, one individual was responsible for receiving and depositing all donations, as well as preparing and mailing the tax receipts to donors. This individual also had custody of the supply of unused tax receipts.

Stricter control should be maintained by Accounting over unused tax receipts, particularly if ROM management continue to delegate responsibility for both the donation and receipt control functions to one individual. Also, Accounting should be responsible for the mailing of all tax receipts.

INADEQUATE COMPUTER FILE SECURITY

There was no off-site storage of back-up accounting computer files. Destruction of these files by fire or other disaster could have resulted in the complete loss of accounting information.

It was therefore recommended that an off-site storage facility be utilized for back-up computer files.

RESPONSE

Museum management responded that all of the recommendations would be implemented.

4.8 Newly Established, Terminated and Inactive Crown Agencies

NEWLY ESTABLISHED AGENCIES

Two agencies of the Crown were established during the1988 fiscal year.

Office of the Information and Privacy Commissioner

The Office of the Information and Privacy Commissioner was created by the passage of the Freedom of Information and Protection of Privacy Act, 1987, which came into force on January 1, 1988. The Information and Privacy Commissioner exercises the powers and performs the duties prescribed by the Act.

Potato Financial Protection Board

This Board was established effective September 10, 1987 by a regulation made under the Farm Products Payments Act. The Board was constituted to administer the Fund for Producers of Potatoes, a fund to protect the producers of processing potatoes from losses caused by the bankruptcies of processing companies.

Initial audits of these agencies have been completed for their respective periods of operation to March 31, 1988.

TERMINATED AGENCY

Residential Tenancy Commission

Under the authority of the Residential Rent Regulation Act, 1986, the Commission was essentially terminated as of December 15, 1986, except for the purposes of processing any rent review applications received prior to January 1, 1987.

Comments on Crown Agency Audits

INACTIVE AGENCIES

As at March 31, 1988 there were seven inactive Crown agencies.

Agencies of the Crown

The John Graves Simcoe Memorial Foundation
North Pickering Development Corporation
Ontario Deposit Insurance Corporation
Ontario Land Corporation
Ontario Pavilion Expo '86

Crown Controlled Corporations

The Ontario Transportation Development Corporation
Ontario Van Pool Organization Limited

CHAPTER 5
PUBLIC ACCOUNTS OF THE PROVINCE

5.1 Preparation of the Public Accounts

In accordance with the Ministry of Treasury and Economics Act the Public Accounts are prepared under the direction of the Treasurer, and are to be delivered to the Lieutenant Governor in Council and laid before the Assembly not later than the tenth day of the first session held in the following calendar year.

The audit of the Public Accounts consists of an examination of the financial statements of the Province on which the Provincial Auditor expresses an opinion, together with a review of the other statements and schedules contained in Volume 1.

Volume 2 contains reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

(a) in which the Province has an investment, or
(b) which have borrowed from the Province, or
(c) which have borrowed from others with a guarantee by the Province.

Also included in Volume 2 are the audited financial statements of certain significant operational agencies which are funded in whole or in part by revenues generated from their operations.

Volume 3 contains details of the expenditure for each ministry, such as salaries and wages, employee benefits, travelling expenses and other payments. This expenditure is shown under two main categories, Voted Appropriations and Statutory Appropriations. Although the Office does not express an opinion on Volume 3, the information contained therein is reviewed and any relevant comments would be included in this Chapter of our Annual Report.

5.2 Financial Statements of the Province

The audited financial statements of the Province for the year ended March 31, 1988 are reproduced in the Province's Financial Report and in the Public Accounts, Volume 1. The financial statements and notes disclose in summary form the financial activities of the Province for the fiscal year, and report on the significant aspects of financial position at the close of the fiscal year.

An integral part of the Province's financial statements is the Summary of Significant Accounting Policies. This Summary appears on pages 1-2 and 1-3 of Volume 1 of the 1987-88 Public Accounts. Such a Summary is included in order to provide the reader with a clear understanding of the principles and methods used to present the financial information contained in the statements. Due to the nature of government accounting, the accounting policies stated in the Summary have particular importance to a reader who may not be familiar with the differences, some of which are significant, between the accounting policies followed by the private sector and those followed by the Province of Ontario.

As covered in the Summary of Significant Accounting Policies in the Public Accounts, Ontario's financial statements are prepared using the cash basis of accounting. In the case of cash outflows, this basis is modified to allow for an

additional 30 days to pay for obligations incurred during the fiscal year just ended.

The Office of the Treasury, responsible for financial statement preparation, maintains that the present cash basis of accounting is precise, well-understood and no less informative, and is appropriate to the needs of the two primary user groups - legislators and the general public.

This Office agrees with that position.

5.3 Provincial Auditor's Opinion

Under the Audit Act the Provincial Auditor is required to express an opinion as to the fairness of the Province's financial statements in accordance with the accounting policies stated in the Public Accounts, and whether these policies have been applied on a basis consistent with the preceding year.

The Provincial Auditor's opinion is reproduced as follows:

I have examined the statement of financial position of the Province of Ontario as at March 31, 1988 and the statements of consolidated revenue fund transactions, revenue, expenditure, other transactions and debt transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended. Further, in my opinion, these Policies have been applied on a basis consistent with that of the preceding year.

The terms "in my opinion" and "present fairly" in the preceding paragraph are intended to convey that my examination was carried out to provide a high degree of assurance that the financial statements of the Province do not contain material aggregate error. More specifically, I am 99 per cent confident that the total of any errors in the financial statements is less than $70 million.

In accordance with section 12 of the Audit Act, a report will be made to the Speaker of the Legislative Assembly. A more complete explanation of the Provincial Auditor's opinion will be included in this report.

D.F. Archer

Toronto, Ontario.
July 20, 1988.

D.F. Archer, F.C.A.,
Provincial Auditor.

Provincial Auditor's Opinion Explained

5.4 Provincial Auditor's Opinion Explained

General

The Provincial Auditor's Opinion essentially takes the form prescribed by the accounting profession in Canada. A disadvantage of a standard wording is that the opinion may become a symbol in itself and the specific messages that the auditor wishes to convey may not be clearly understood.

The recent report of the "Commission to Study the Public's Expectations of Audits" (MacDonald Commission) prepared for the Canadian Institute of Chartered Accountants identified an "expectation gap" between what an auditor does and what the reader expects the auditor to do. The Commission recommended that the auditor's communication be expanded to more fully explain the nature and extent of the auditor's work, and the degree of assurance it provides. The purpose of this section is to explain, by going through the report phrase by phrase, the message we are trying to convey.

The opinion essentially consists of two paragraphs. The first paragraph indicates the nature of the work performed. The second paragraph expresses the opinion based on this work.

Our Examination

I have examined the statement of financial position of the Province of Ontario as at March 31, 1988 and the statements of consolidated revenue fund transactions, revenue, expenditure, other transactions and debt transactions for the year then ended. . .

The financial statements of the Province are prepared by the Office of the Treasury under the direction of the Treasurer of Ontario. The purpose of our examination is to provide an objective look at the information presented in the financial statements and provide an opinion thereon.

Although not specifically mentioned as being covered by our examination, the Summary of Significant Accounting Policies and the Notes to the Financial Statements are an integral part of the financial statements and are subject to audit.

. . . My examination was made in accordance with generally accepted auditing standards . . .

In conducting the audit certain standards are met. These "generally accepted auditing standards" are those set out by the Canadian Institute of Chartered Accountants. These standards relate to the quality and nature of work to be performed.

In summary, they require:

- adequate technical training and proficiency in auditing;

- due care and an objective state of mind;
- adequate planning and proper execution;
- proper supervision of assistants;
- study and evaluation of internal controls on which the auditor intends to rely;
- obtaining sufficient appropriate audit evidence; and
- the issuance of a report.

. . . and accordingly included such tests and other procedures as I considered necessary in the circumstances . . .

Many procedures are performed on a test basis. To examine all or most transactions would be both impractical and uneconomical. The auditor's professional judgement dictates both the choice from available procedures and the extent to which they are applied.

Results of Our Examination

. . . In my opinion . . .

The Provincial Auditor's comments on the financial statements are prefaced with the words "In my opinion". This term is intended to convey that my examination was carried out to provide a high degree of assurance, not absolute or complete assurance.

Absolute assurance is not possible due to factors such as the following:

- Much of the evidence available to auditors is persuasive rather than conclusive in nature. For example, although internal financial controls under examination may appear strong, there is no guarantee that such controls will not be breached from time to time.
- Testing is used as a means of obtaining audit assurance, as opposed to a 100 per cent examination of all transactions and balances.

Instead the auditor decides, based on his professional judgement, the highest degree of assurance that can be obtained at a reasonable cost. In the case of the audit of the Public Accounts, this level of assurance was determined to be 99 per cent. In other words, we are 99 per cent confident that the statements do not contain a material error.

. . . these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1988 and the results of its operations and changes in its financial position for the year then ended.

Provincial Auditor's Opinion Explained

The key words in this sentence are "present fairly" and "in accordance with".

The term "present fairly" has no intrinsic meaning. It has meaning only in relation to a measure or standard. The standard in this case is the basis of accounting followed by the Province and set out in the Summary of Significant Accounting Policies. When viewed in relation to that standard, we are saying that the financial statements "present fairly".

By using the words "present fairly", we are not stating that the financial statements are totally accurate, correct, or true. What we are stating is that the statements do not contain errors in aggregate that would affect the substance of the information reported.

For the audit of the Province's financial statements this year, $70 million was considered to be of a size to affect the substance of the information reported. This is based on our professional judgement and the guidelines outlined in professional literature. It should be noted that $70 million represents approximately one-fifth of 1 per cent of total expenditures for the current year.

In assessing whether the financial statements "present fairly", we consider whether the accounting policies have been followed and whether the underlying accounting records are reliable and the financial information is properly communicated in the financial statements. In this regard, tests and procedures are designed including:

- examination of a sample of transactions to see how effectively the accounting systems prevent and detect errors;
- confirmation of certain balances and transactions to ensure that they are properly recorded;
- review of the estimates and approximations used in the financial statements to ensure they are reasonable; and
- final review of the financial information presented for overall reasonableness.

In most cases these tests are performed to identify errors significantly less than those that would affect the substance of the information reported.

We also consider whether the accounting policies of the Province are appropriate and consistent with those followed in the previous year. Comment in this regard is only made in the event of an inappropriate policy or inconsistent practice.

Discussion with Legislative Committee

The preceding explanation was reviewed by the Standing Committee on Public Accounts in May 1988. Discussion focused on the limitations inherent in the Auditor's Opinion. The Committee was satisfied with the levels of assurance and materiality determined by the Auditor.

5.5 Payments out of the Consolidated Revenue Fund

Payments out of the Consolidated Revenue Fund are of two major types: those pursuant to Estimates including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Voted Appropriations, which are formalized annually by the Supply Act, may be increased by Management Board Orders. The nature of Management Board Orders is more fully explained in Section 5.7.

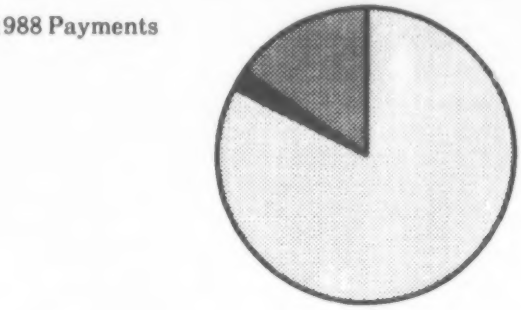
A third type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of this authority is more fully explained in Section 5.8.

A comparative summary of payments out of the Consolidated Revenue Fund is as follows:

	1988 ($ millions)	1987 ($ millions)
Voted Appropriations		
Estimates		
Expenditure	29,835	27,228
Other - Loans, Advances, etc.	94	44
	29,929*	27,272*
Management Board Orders		
Expenditure	767	895
Other - Loans, Advances, etc.	1	-
	768	895
Total Voted Appropriations	30,697	28,167
Statutory Appropriations		
Expenditure	4,339	4,054
Other - Loans, Advances, etc.	1,188	699
Total Statutory Appropriations	5,527	4,753
Total Payments	36,224	32,920

Voted Appropriations

1988 Payments



Voted Appropriations - Estimates (82.6%)

Statutory Appropriations (15.3%)

Voted Appropriations - Management Board Orders (2.1%)

(*) As explained in section 6.8 there were four special warrants issued in the 1988 fiscal year amounting to $9,950,162,000. There were two issued in 1987 totalling $6,215,554,800. Normally all payments made under the authority of special warrants would be classified separately in the foregoing statement; however, due to the circumstances surrounding these special warrants and to maintain comparability of the Voted Appropriations between fiscal years, payments authorized by the special warrants have been included in payments from Voted Appropriations.

5.6
Voted Appropriations - Comparison of Authorized and Actual Payments

This comparison for the fiscal year ended March 31, 1988 is as follows:

	Authorized ($ millions)	Actual ($ million)	Actual Under (over) Authorized ($ millions)
Voted Appropriations*			
Estimates	30,578	29,929	649
Management Board Orders	802	768	34
	31,380	30,697	683

* See asterisk in section 5.5.

As has been the case for the last several years, the total actual payments of $30,697 million slightly exceeded the amount of $30,578 million authorized in the Supply Act. Ministries anticipating overexpenditure situations in their programs obtained authorization for the additional spending through Management Board Orders. As a result, expenditures were $683 million less than the total authorized.

Overexpenditure of Certain Appropriations

Overexpenditures occur when actual payments exceed the total appropriations authorized by the Supply Act (the original Estimates and the Supplementary Estimates) and by Management Board of Cabinet (Management Board Orders). If, during the fiscal year, a ministry requires an increase in funding beyond the original Estimates amount, it obtains interim approval from Management Board of Cabinet in the form of an Expenditure Increase. However, failure to formalize the authority for the increased spending before the fiscal year-end, by means of a Supplementary Estimate or a Management Board Order, results in an overspending of the authorized appropriations.

For the 1988 fiscal year, three ministries expended funds in excess of their total authorized spending limits (the appropriations). The circumstances involved in the overexpenditures, which totalled $1,864,546, were different in each ministry and are as follows.

- The Ministry of Transportation expended $1,723,784 more than the appropriation for the Maintenance Activity (Vote 3604, Item 4) of the Provincial Highways Program. Management Board had allowed the Ministry an Expenditure Increase of $1,725,000 in June 1987. However, the authority to spend the additional funds was not formalized as the $1,725,000 was not included in the December 1987 Supplementary Estimates.

  The Ministry incorrectly assumed that Constraints on expenditures, imposed by Management Board at approximately the same time as the Supplementary Estimates were being requested, would have offset the increase in total approved spending authorized by the Supplementary Estimates. Consequently, during the preparation of the Public Accounts in the spring of 1988 an overexpenditure of $1,723,784 was discovered in Vote 3604, Item 4. However, it was then too late for the Ministry to obtain legal authority for the additional spending by means of a Management Board Order.

- The Public Accounts indicate that the Ministry of Culture and Communications has expended $108,895 in excess of its authorized appropriation for the Community Facilities Activity (Vote 606-1) of the Capital Support and Regional Services Program. However, the apparent overexpenditure did not result from a lack of expenditure control. It occurred because an error was made in the process of apportioning the relevant appropriations of the former Ministry of Citizenship and Culture to two new ministries, the Ministry of Culture and Communications and the Ministry of Citizenship.

  When the new ministries were established by Orders-in-Council in October 1987, the ministries and the government's central agencies agreed that expenditures would be controlled as if the former ministry had continued to exist for the balance of the 1988 fiscal year. However, subsequent to the year-end it was decided that, for purposes of presentation in the Public

Accounts, the former ministry's Community Facilities Activity estimated expenditure of $33,942,900 would be apportioned as follows:

- $23,507,900 to Culture and Communications (actual expenditure of $23,616,795)

- $10,435,000 to Citizenship (actual expenditure of $9,797,516)

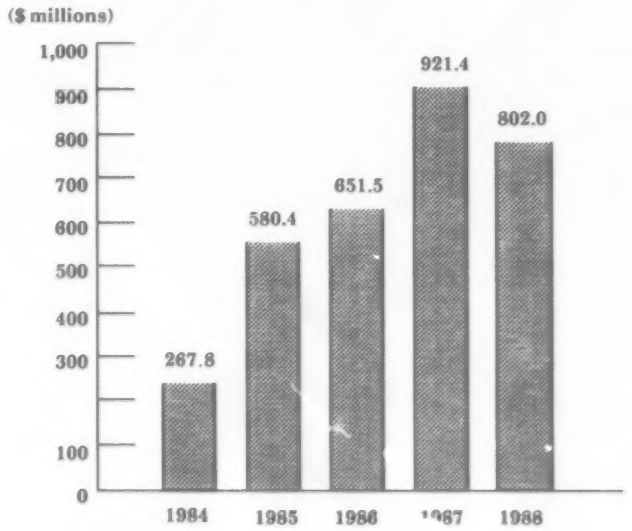
The combined actual expenditure of $33,414,311 did not exceed the $33,942,900 authorized expenditure. The apparent overexpenditure in Culture and Communications resulted from the over-allocation of authorized estimated expenditures to Citizenship, an error that was discovered too late in the preparation of the Public Accounts to have a correction made.

- The Office of the Chief Election Officer expended $31,867 more than its appropriation (Vote 501). However, the Office had properly followed the procedures for obtaining Supplementary Estimates, and had received appropriate authorization to spend an additional $36,800. The overexpenditure has, in effect, resulted from the inadvertent exclusion of the $36,800 from the expenditure estimates approved under the Supply Act. The error occurred during the process of coordinating and consolidating Estimates and Supplementary Estimates for presentation to the Legislature.

5.7 Management Board Orders

Section 5 of the Management Board of Cabinet Act provides that, where an appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, the Board may make an order authorizing payments to be made against such amounts as it considers proper.

The following chart is a summary of the Management Board Orders issued for the past five years:



By way of additional information, the Management Board Orders for the 1988 fiscal year are summarized by month of issue as follows :

Month of Issue	Number	Authorized $	%
July 1987 to February 1988	26	108,110,600	13.5
March 1988	46	456,508,200	56.9
April 1988	14	237,371,200	29.6
	86	801,990,000	100.0

A listing of Management Board Orders, showing the amounts authorized and expended, is included as Exhibit 5 of this Report.

In accordance with a Standing Order of the Legislative Assembly, the preceding Management Board Orders have been printed in The Ontario Gazette, together with explanatory information.

5.8
Special Warrants

Normally, motions of interim supply adopted by the Legislature authorize payments from appropriations prior to the passage of the Supply Act. However, when the Legislature is not in session, section 4 of the Management Board of Cabinet Act provides for the issue of a special warrant authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good.

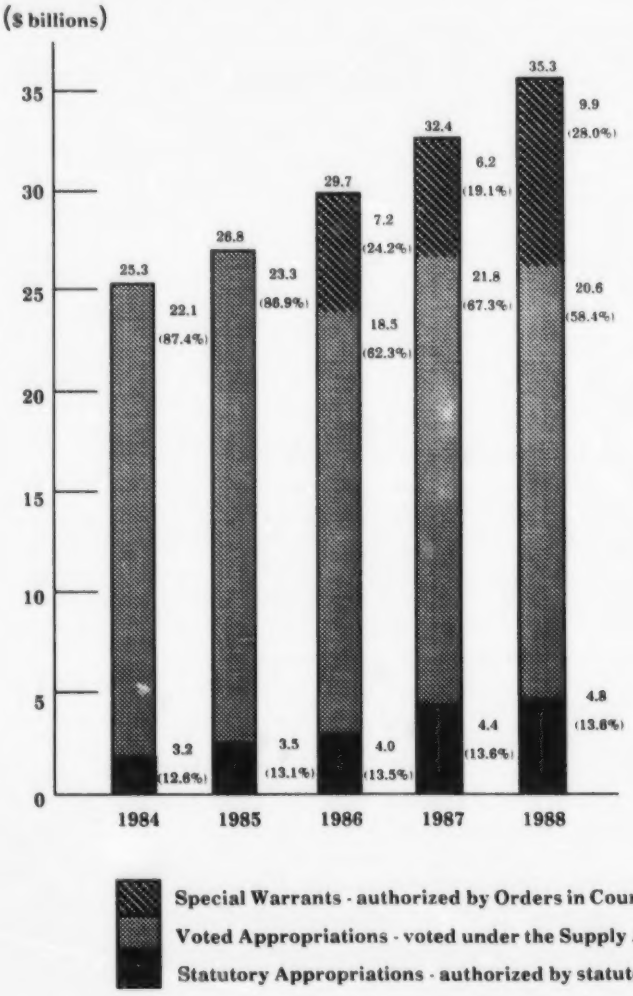
Four Special Warrants were issued during the year ended March 31, 1988. The Special Warrants were approved by Orders in Council, dated March 26, 1987 and October 30, 1987 for $7,280,124,000 and $2,670,038,000, respectively. Payments for both the general and necessary expenditures of the government, and for the general and necessary expenditures of the Offices of the Chief Election Officer, Ombudsman and Provincial Auditor, were authorized by these SpecialWarrants.

The amounts of the Special Warrants were based on the anticipated cash requirements, on the premise that expenditure would continue up to the authorized limit, and then under the authority of motions of interim supply.

The Supply Act, 1988 covering the year ended March 31, 1988 received Royal Assent on June 1, 1988. The total approved by the Act excluded the amount authorized by the four Special Warrants.

Special Warrants

The following chart is a five year summary of approved expenditures:



The chart indicates that, for the last three fiscal years, Special Warrants have formed a substantial portion of the approved expenditures. Such expenditures were approved, not by the Legislative Assembly as it was not in session, but by the Lieutenant Governor on the recommendation of the Government.

In accordance with a Standing Order of the Legislative Assembly, summaries of Special Warrants have been tabled on the first sitting days following the issue of the Warrants.

5.9 Write-Off of Uncollectible Accounts

Under Section 5 of the Financial Administration Act, the Lieutenant Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

A total of $53.9 million was written off in the 1988 fiscal year (1987 $71.7 million). The two major write-offs for 1988 related to the following:

- A $23.1 million write-off by the Ministry of Industry, Trade and Technology related to uncollectible loans made under the Development Corporations Act and by the former Board of Industrial Leadership and Development (BILD). Borrowers had gone bankrupt, into receivership or collection was considered doubtful.

- A $14.8 million write-off by the Ministry of Revenue relating to unpaid taxes and GAINS overpayments. The major write-offs were as follows:

	($ millions)
Corporations Tax Act	6.7
Retail Sales Tax Act	6.5

Other write-offs of uncollectible debts included the following:

Uncollectible accounts totalling $3.7 million in fines, costs and fees owed to Provincial Courts were written off by the Ministry of the Attorney General. Virtually all of these write-offs involve accounts at least four years old.

The Ministry of Financial Institutions wrote off $3.0 million in uncollectible claims and judgements pertaining to the Motor Vehicle Accident Claims Fund. Most of this write-off relates to claims/judgements on which no payment has been received for five years, bankruptcy, death or where the debtor has not been located.

A $3 million write-off by the Ministry of the Environment related to environmental clean-up costs which were incurred to remove hazardous material. Efforts to collect from the company involved were unsuccessful as the company had no assets to settle the claim.

The Ministry of Community and Social Services wrote off $2.0 million with respect to overpayments under the Family Benefits Act. The major portion of this write-off relates to individuals whose whereabouts were unknown, or who were unable to repay.

The Ministry of Agriculture and Food wrote off $1.9 million in defaulted guaranteed bank loans under the Ontario Farm Adjustment Assistance Program. This represents the balance of guarantees paid to banks after applying any proceeds of liquidation of farmers' assets.

Transfers Authorized by Board of Internal Economy

5.10 Transfers Authorized by Board of Internal Economy

Section 88 of the Legislative Assembly Act reads:

> "The Board of Internal Economy may authorize the transfer of moneys from one item of the estimates of the Office of the Assembly to another item within the same Vote and the Provincial Auditor shall make special mention in his report of any transfer under this section."

In respect of the 1987-88 expenditure estimates, the following transfers totalling $1,321,466 were made within Vote 201:

From:	Item 2	Office of the Clerk	$1,321,466
To:	Item 4	Members' Indemnities	109,110
	Item 12	Commission on Election Finances	807,028
	Statutory	Contribution to Legislative Assembly Retirement Allowances Account, the Legislative Assembly Retirement Allowances Act	405,328

CHAPTER 6
OFFICE OF THE PROVINCIAL AUDITOR

6.1 Independence of the Provincial Auditor

If the opinions and reports presented by the Provincial Auditor are to be prepared without bias or interference, the Office must be granted as much independence as possible. It must also be perceived to be independent by all those whom the Office's work affects, including the general public.

To ensure such independence, the Legislature has enacted a separate act, the Audit Act, setting out the mandate of the Provincial Auditor.

The Provincial Auditor is appointed an officer of the Legislative Assembly, and therefore is not an employee of the Government. The appointment is made by the Lieutenant Governor in Council on the address of the Assembly after consultation with the chairman of the Standing Committee on Public Accounts. The Auditor may be removed for cause at any time by the Lieutenant Governor in Council on the address of the Legislative Assembly.

Administratively, the Office of the Provincial Auditor is distinctly separate from any government ministry or Crown agency, and its employees are not members of the public service. The Office's resource requirements are subject to approval by the Board of Internal Economy, an all-party legislative committee independent of the government's administrative process.

The Audit Act requires the Provincial Auditor to present the Office's annual expenditure estimates to the Board for review and approval. The chairman and vice-chairman of the Standing Committee on Public Accounts may attend the review of the estimates.

In accordance with section 28 of the Audit Act, the accounts related to the Office's expenditure for the year ended March 31, 1988 were audited by a firm of chartered accountants. The audited statement of expenditure, together with the report have been submitted to the Board of Internal Economy and tabled in the Assembly. They are reproduced in section 6.10.

6.2 Office Goals

The primary goal of the Provincial Auditor is:

- to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor's secondary goal is as follows:

- to assist deputy ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries'/agencies' stewardship of public funds.

The Provincial Auditor seeks to achieve these goals by conducting value for money, attest and compliance audits, and by presenting an Annual Report to the Legislature and individual reports to the respective deputy ministers/agency heads.

6.3 Audit Responsibilities

The audit universe in government is comprised of the following areas:

- the audits of ministries, including transfer payment recipients;
- agencies of the Crown and Crown controlled corporations; and,
- the Province's financial statements.

The participants in the audit process may involve internal auditors, public accounting firms and the Provincial Auditor.

Internal Auditors

Internal auditors undertake audits of their respective ministries and agencies on behalf of management. Their responsibilities include the auditing of both financial and management controls.

Financial controls focus on the safeguarding of assets and the provision of essential financial information. Management controls are primarily concerned with value for money and accountability considerations.

In order to avoid duplication of effort, the Office relies, wherever possible, on work that has been done and on reports that have been issued by ministry and agency internal audit branches.

Public Accounting Firms

Public accounting firms are involved in the audits of some agencies of the Crown and all Crown controlled corporations.

A listing of the seven agencies of the Crown audited by public accounting firms for the year ended March 31, 1988 is included as part (ii) of Exhibit 3. The 34 Crown controlled corporations audited by public accounting firms for the year ended March 31, 1988 are listed in Exhibit 4.

Agencies of the Crown

Section 9(2) of the Audit Act stipulates that public accounting firms auditing agencies of the Crown must perform the audit under the direction of, and report to, the Provincial Auditor.

Crown Controlled Corporations

Under section 9(3) of the Audit Act, public accounting firms auditing Crown controlled corporations must present a copy of their completed audited financial statements to the Provincial Auditor together with a copy of their findings and recommendations to management (management letter). Currently, our Office reviews the auditors' working papers and other documents on a cyclical basis of at least once in a four year period and, where necessary, requests explanations and information concerning the nature and extent of the audit work carried out and the results obtained.

Reviews conducted during the 12 months ended September 30, 1988 are identified in Exhibit 4.

The Provincial Auditor

Primary Audit Responsibilities

The primary audit responsibilities of the Provincial Auditor involve conducting value for money, attest and compliance audits at ministries and agencies of the Crown.

ACCOUNTS OF THE PROVINCE

In conformity with section 9(1) of the Audit Act, all ministries are subject to legislative audit. In addition to the annual attest audit work in ministries required to enable the Provincial Auditor to express an opinion on the Province's financial statements, audits which are primarily of a value for money nature are also undertaken in ministries. A listing of the ministry audits covered by this Report appears in Exhibit 2.

ACCOUNTS OF AGENCIES OF THE CROWN

Section 9(2) of the Audit Act states that where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Provincial Auditor is to perform the audit. For the year ended March 31, 1988, the Provincial Auditor had direct audit responsibility for 64 agencies of the Crown. These agencies are listed in part (i) of Exhibit 3.

Additional Audit Responsibilities

Under section 16 of the Act, the Provincial Auditor is required to examine any matter respecting the Public Accounts if directed by the Standing Committee on Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister, provided that these special assignments do not take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

6.4 Audit Activities

Types of Audits

Audits undertaken by this Office are of three types - value for money, attest and compliance. All such audits are performed in accordance with generally accepted auditing standards, including those established for value for money auditing. These three categories were fully described in section 7.4 of our 1987 Report. A condensed description of each of these categories follows:

Value for Money

Value for money audits, covering various government and Crown agency programs and activities, are designed to assess components of the management function related to economy, efficiency and procedures to measure effectiveness.

In conducting these audits, detailed background information concerning the operations of the program or activity being audited is gathered from various internal and external sources. Suitable criteria are then developed and discussed with management. Criteria may be defined as reasonable and attainable standards of performance and control against which the adequacy of the management function can be assessed. The audit process concludes with objectively obtaining and evaluating evidence to ascertain the degree of correspondence between the matters subject to audit and the criteria.

In conducting value for money audits, it is not part of the Office's mandate to actually evaluate the effectiveness of programs, or to develop standards to measure efficiency of program delivery. These are ministry/agency management functions. Our responsibility lies in assessing the extent to which these functions have been carried out by management.

Attest

The Office conducts attest (financial) audits on the annual financial statements of the Province and numerous Crown agencies. They are primarily designed to attest to (express a professional opinion on) a set of financial statements. This attestation (or opinion) relates to whether the operations and financial position of an entity have been fairly presented in compliance with the entity's stated accounting policies, and whether such policies are consistent with those used in the previous year.

Internal controls represent methods and procedures developed by management to safeguard assets, and to ensure the accuracy and reliability of accounting data. To rely on internal controls, the auditor must carry out tests to be satisfied that the controls are operating effectively and that the entity's laid down procedures are being complied with.

In addition, the auditor must obtain other evidence and conduct further testing aimed at providing evidence as to the validity of the transactions recorded in, and balances produced by, the accounting system.

As part of our ministry audit activities, or on a government-wide basis, the Office also periodically conducts financially oriented audits directed at assessing the adequacy and proper functioning of specific internal controls.

Compliance

Compliance audit work is generally carried out in conjunction with our value for money and attest audit work and is designed to assess whether transactions and

other aspects of operations are in compliance with legislative or other requirements.

The primary focus of compliance audits relates to legislative requirements. Legislation, regulations, orders in council and corporate by-laws may set out directions, conditions and limitations that affect the administration and transactions of ministries and agencies and with which they must comply.

A secondary category of compliance audits relates to administrative requirements. Generally, legislation delegates broad financial and administrative powers to governments, ministries and agencies which in turn may establish specific operative rules and directives.

Audit of Transfer Payments

General

Transfer payments, comprising over 70 per cent of government expenditures, represent payments for which the Province does not directly receive goods or services. The payments may be for specific purposes (such as the funding of school boards and universities), or unconditional (such as per capita grants to municipalities).

Attest/Compliance

The Office's attest and compliance activities include the testing of selected transfer payments for proper authorizations and calculations, and for compliance with legislative and administrative requirements.

Value for Money

Value for money auditing can assist funding ministries/agencies in the fulfillment of their responsibility for ensuring that transfer payments are well managed by the recipients, that is, spent with due regard for economy, efficiency and effectiveness. Such audits may be conducted by the recipients' appointed auditors or by the internal audit staff of the funding ministries/agencies.

The Provincial Auditor is not directly involved in this value for money audit process, but may become indirectly involved when assessing the steps taken by a ministry to satisfy itself that funds provided to organizations are being well-managed.

Inspection Audits of Transfer Payment Recipients

Section 13 of the Audit Act enables the Provincial Auditor to perform an inspection audit of a transfer payment recipient. Inspection audits are defined as examinations of accounting records. Although value for money observations may arise as a by-product of inspection audits, the audits cannot be specifically value for money oriented.

The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit. Inspection audits may also be carried out by ministry internal auditors pursuant to the terms of agreements with the grant recipients.

Scheduling of Audit Activities

Ministry Audits

Ministry audits are designed to cover all major programs and activities over a four to five year period and are primarily value for money oriented. The frequency of audits depends on a number of factors, including total expenditures, diversity and complexity of operations, and the extent of significant regulatory responsibilities. In addition to these cyclical audits, annual attest audit work is required in the ministries for the expression of an opinion on the Province's financial statements.

Ministry expenditure systems that are processed centrally are audited on a government-wide basis at least once over a four year period. Ministry financial systems that are not centralized are audited on a ministry by ministry basis, as are the major revenue activities across government.

Agency Audits

Agency of the Crown audits are always conducted on an annual basis. In addition to the regular attest/compliance audit activities, the Office periodically reviews management's attention to economy and efficiency, and to the measurement of the effectiveness of agency operations.

6.5 Ministry and Agency Reports

Reporting Process

At the conclusion of each audit the draft report is discussed with senior ministry/agency officials and, where necessary, revised to reflect matters raised in the discussion or by senior Office management in the final review. The final report is issued to the minister and deputy minister or, for agencies, to the board of directors and the minister of the associated ministry. In all cases a copy of the final report is sent to the Secretary of the Management Board of Cabinet. If requested by the ministry or agency, the Office will discuss any aspects of the final report on which they wish clarification or further information.

Exhibits 2 and 3 provide a listing of the ministry and agency audits conducted in the past year.

Additional Reporting Matters

6.6 Additional Reporting Matters

Special Assignments

The Office's additional reporting responsibilities, pursuant to sections 16 and 17 of the Act, relate to performing special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work the Provincial Auditor reports to the initiator of the assignment.

During the period of audit activity (October 1987 to September 1988) covered by this Report, the Office has not been requested by the Legislative Assembly or the Standing Committee on Public Accounts to undertake any special assignments. However, at the request of the Minister of Industry, Trade & Technology, the Office has undertaken a review of various aspects of the operations of the IDEA Corporation. Our report will be submitted to the Minister in the fall of 1988.

6.7 Annual Report

Reporting Responsibility

Under Section 12 of the Audit Act, the Provincial Auditor is required to report through the Speaker to the Legislative Assembly on the results of his examinations. Essentially, the Annual Report includes the following information:

- an opinion on the Province's financial statements as to their fairness and consistency in accordance with stated accounting policies;
- the disclosure of matters of significance noted in the course of audits, including:
  - accounts or essential records improperly maintained;
  - inadequate procedures and rules for the safeguard of public property, the collection of revenue and the authorization of expenditures;
  - money spent without due regard to economy and efficiency; and
  - lack of appropriate procedures to measure and report on the effectiveness of programs.

Reporting Process

The main body of the Annual Report consists of sections of audit reports on ministries and agencies issued during the period from October 1987 to September 1988. The steps in the preparation of the Annual Report are as follows:

- Ministry/agency reports are reviewed by the Office's senior management for matters perceived to be of significance or interest to the Assembly.

- Selected report items and relevant ministry/agency responses received up to October 14 only (due to printing deadlines) are included in the Annual Report.

  Items may also be selected from the management letters issued by public accounting firms auditing agencies of the Crown and Crown controlled corporations.

- The Report is tabled in the Assembly and subsequently referred to the Standing Committee on Public Accounts for review.

- Ministry/agency responses received after October 14, pertaining to sections contained in the Report, are forwarded to the Committee.

- The Committee calls upon representatives of the ministries or agencies to discuss selected sections of the Report in meetings open to the general public.

Annual Report Briefing

Each year an Annual Report briefing is held prior to the tabling of the Report. Arrangements are made for two separate and simultaneous lockups: one for members of the Legislature and their research staff, and one for representatives of the media. The lockups are concluded with a news conference, at which time the Provincial Auditor is available to answer the media's questions.

6.8 Public Disclosure of Reports

Annual Report

The Annual Report is normally tabled in the Legislative Assembly by December of each year, at which time it becomes available to the public. The general public may also attend meetings of the Standing Committee on Public Accounts when the Annual Report is being reviewed.

Other Reports

Our individual audit reports issued at the conclusion of each ministry or agency audit, reports to management by the auditors of agencies of the Crown and Crown controlled corporations, or our special assignments for a minister, are not laid before the Legislative Assembly, or a committee of the Assembly. However, the Standing Committee on Public Accounts or any other committee of the Legislature may, by resolution, request that such audit reports be made available if they are deemed essential or beneficial in the pursuit of the committee's appointed duties. As soon as a report is laid before a committee it becomes a public document.

Draft reports for ministries and agencies are considered to be an integral part of the audit working papers and, according to section 19 of the Audit Act, are not required to be laid before the Legislative Assembly or any of its committees.

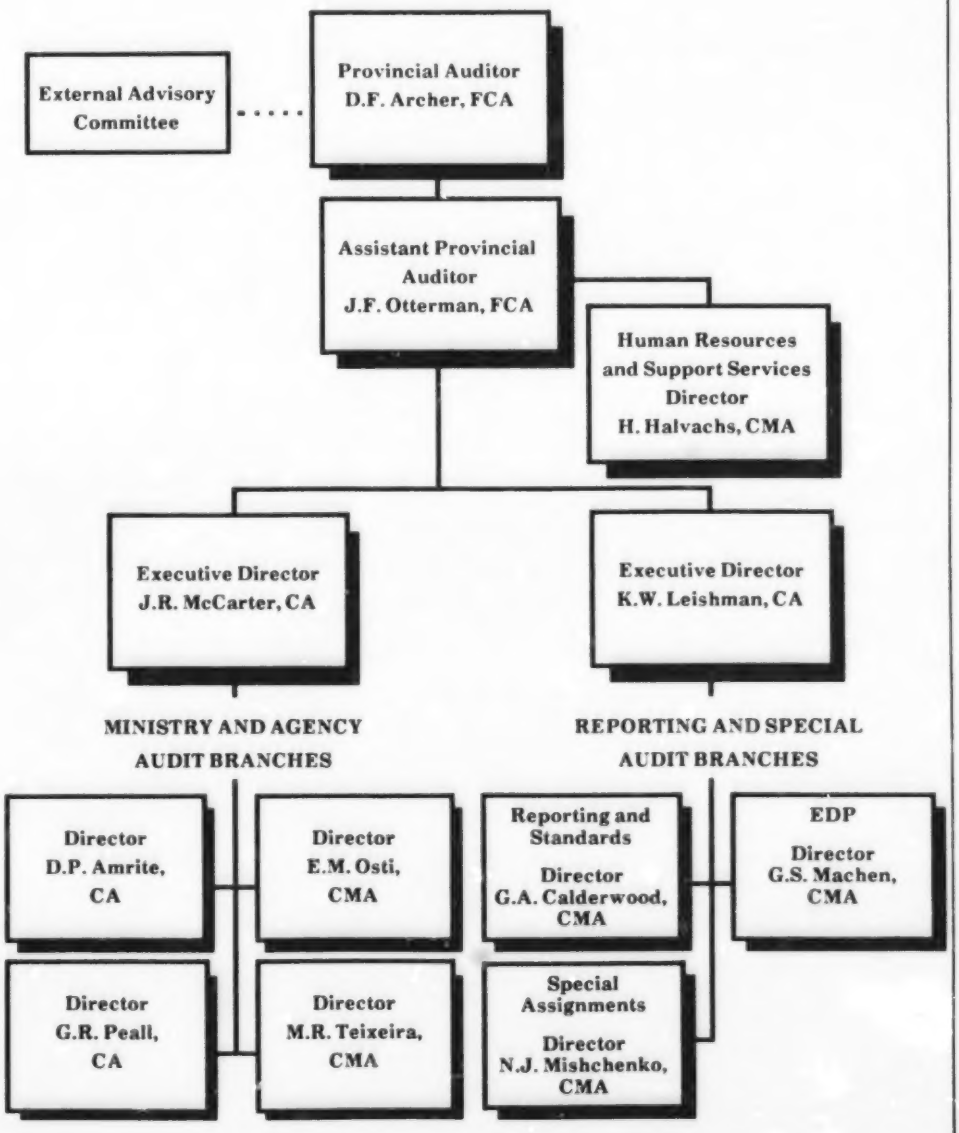
Office Organization and Personnel

Reports on special assignments conducted on behalf of the Legislative Assembly, or a committee of the Assembly, become public documents when they are presented.

This Office declines requests from the public and media representatives for access to our issued audit reports. In this regard, it should be noted that the access provisions of the Freedom of Information and Protection of Privacy Act, 1987, do not apply to the Office of the Provincial Auditor.

6.9 Office Organization and Personnel

The Office is organized as follows:



Ministry and Agency Audit Branches

These four audit branches are responsible for the cyclical audits of ministries and annual audits of agencies of the Crown.

Reporting and Standards Branch

The responsibilities of this branch include the audit of the Province's financial statements, the preparation of the Annual Report, and the development and maintenance of auditing policies and standards.

EDP Branch

This branch's main responsibilities are EDP audits, including the provision of technical support to other branches and training.

Special Assignments Branch

This branch's main responsibilities are special assignments requested by the Standing Committee on Public Accounts and by ministers. Also, Office initiated audits and reviews of government-wide issues and systems are undertaken.

Advisory Committee

An external Advisory Committee has been established by the Provincial Auditor to strengthen the function of the Office. The Committee's terms of reference include assessment of the Annual Report and other publicly issued reports, periodic review of the Office's audit approach, analysis of the Office profile, and advice relating to sensitive audit issues. The Committee meets once or twice a year on the call of the Auditor.

The Committee is composed of five members, all of whom combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of government. At the present time the members of the Advisory Committee are:

Rendall Dick :	former Deputy Attorney General and Deputy Treasurer of Ontario;
Patrick Reid :	former Labour/Liberal MPP; past chairman of the Public Accounts Committee;
Jack Stokes :	former New Democratic MPP and Speaker of the Legislative Assembly;
George Taylor :	former Conservative MPP and member of the Public Accounts Committee; former Solicitor General of Ontario;
Adam Zimmerman :	Chairman, MacMillan Bloedel; Chairman and Chief Executive Officer, Noranda Forest Inc.

Office Expenditure

Personnel

Office staff at September 30, 1988 were as follows:

Executive and Directors	12
Managers	16
Supervisors	14
Auditors	13
Auditor Trainees	37
Human Resources and Support Services	13
Total Staff	105

6.10
Office Expenditure

The following is the 1988 audited Statement of Expenditure for the Office.

Office of the Provincial Auditor
Statement of Expenditure
year ended March 31, 1988

	1988		1987	
	Actual $	Estimates $	Actual $	Estimates $
Salaries and wages	4,273,474	4,365,700	4,138,005	4,309,000
Employee benefits	611,978	790,500	522,643	620,000
Transportation and communication	226,220	219,000	199,736	204,000
Services	952,912	1,011,000	536,148	567,000
Supplies and equipment	201,406	178,000	615,051	621,000
Transfer payment - Canadian Comprehensive Auditing Foundation	44,100	44,100	42,400	42,400
	6,310,090	6,608,300	6,053,983	6,363,400
Provincial Auditor's salary	96,511	91,500	90,711	89,700
	6,406,601	6,699,800	6,144,694	6,453,100

Notes:

1. Accounting Policy

The statement of expenditure has been prepared using the basis of accounting followed by the Province of Ontario with respect to the Public Accounts. This basis uses the "cash flow" principle of accounting modified to allow an additional thirty days to pay for goods or services pertaining to the fiscal year just ended.

2. Estimates

The estimates shown above are those voted and approved, including supplementary estimates where applicable.

Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY
THE PROVINCE OF ONTARIO

We have examined the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1988. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this statement presents fairly the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1988 in accordance with the accounting policy referred to in note 1 to the statement applied on a basis consistent with that of the preceding year.

Toronto, Ontario
July 18, 1988

CLARKE HENNING & CO.
CHARTERED ACCOUNTANTS

6.11
Canadian Conference of Legislative Auditors

The sixteenth annual meeting of the Canadian Conference of Legislative Auditors was held in Halifax from July 10-13, 1988. This gathering, bringing together legislative auditors from Canada and the provinces, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

This year's conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, covered such topics as:

- the role of public accounts committees and their relationships with legislative auditors;
- accounting issues relating to the reporting entity, pensions and financial statement presentation for governments; and
- audit issues relating to debt management.

CHAPTER 7
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

7.1 Appointment and Composition of the Committee

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each Session of Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chairman whose vote is restricted to the breaking of a tie.

A Standing Committee on Public Accounts was appointed on November 23, 1987, soon after the commencement of the First Session of the Thirty-Fourth Parliament. Membership on the Committee consists of six Liberals, three New Democrats and two Progressive Conservatives for a total of 11 members. The Chairman of the Committee is a member of the Official Opposition Party (New Democratic).

7.2 Role of the Committee

The Committee is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts. The Committee also reviews matters referred to it by a resolution of the Assembly.

In essence, the role of the Committee, on behalf of Parliament and ultimately the public, is to hold the Cabinet and government bureaucracy accountable for their administration.

In order to fulfill this role, the Committee examines, assesses and reports to the Legislature on a number of issues including the economy and efficiency of operations; effectiveness of programs in achieving objectives; controls over assets, expenditures and the assessment and collection of revenues; and reliability and appropriateness of information in the Public Accounts.

Provincial Auditor's Role in the Process

The Provincial Auditor assists the Committee by presenting information that is relevant to the above issues. This enables the members to deal constructively and intelligently with them.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

7.3 Committee Meetings

General

The Committee meets every Thursday morning when the Legislature is in session. For the past several years it has also met during the summer and winter when the Legislature has not been in session. All meetings, with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports, are open to the public.

Most Committee meetings deal with those aspects of the operations of government ministries and Crown agencies related to assessing the legality and prudence of government expenditures and the establishment of proper administrative policies and procedures.

At meetings dealing with ministry operations, a deputy minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, ministers very rarely attend. When the Committee is reviewing Crown agencies, the chief executive officer and, at times, the chairman of the board attend the meetings. They are usually accompanied by senior agency staff.

Meetings Held

From November 1987 to September 1988 the Committee held 15 public meetings, which included reviews of various sections of the 1987 Auditor's Report as well as a review of the 1987-88 Estimates of the Office of the Provincial Auditor. Additionally, a number of in camera meetings were held, mainly to finalize Committee Reports to the Legislature.

7.4 Other Committee Activities

Canadian Council of Public Accounts Committees

The tenth annual meeting of the Council was held in Halifax, from July 10 to 13, 1988. These annual meetings, normally attended by public accounts committee members from all the provinces and the federal government, provide a valuable forum for the exchange of ideas and information.

The meeting included an update session on the activities of the various committees and the discussion of a draft report on the model public accounts committee.

Review of Counterpart Operations

As part of its agenda, the Committee travelled to Ottawa and Washington, D.C. to observe the operations of its counterparts in other jurisdictions. In Ottawa, meetings were held with the federal Public Accounts Committee, the Auditor General of Canada and officials of the Office of the Comptroller General. The Washington segment of the trip included meetings with members and staff of various Congressional committees, the Comptroller General, and staff of the U.S. General Accounting Office.

The Committee observed a number of procedural innovations and alternatives during its trips, and has already adopted some procedural approaches which have the potential to increase the Committee's effectiveness.

Reports of the Committee

7.5 Reports of the Committee

General

The Committee has adopted a new approach in reporting to the Legislature, whereby it tables separate reports on the issues as they are reviewed. It is felt that this approach has the following advantages: it allows reports to be finalized while still fresh in the minds of Committee members; the Committee's recommendations on actions to be taken by the ministry/agency can be monitored and followed up on a more timely basis; and, by making its work public on an issue-by-issue basis, the enhanced media coverage will increase the public awareness of the Committee's role in the accountability process.

Each Report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of comments and recommendations.

Completed Reports

During the Legislature's spring session and summer adjournment, the Committee issued five Interim Reports relating to various sections of the 1987 Auditor's Report as well as a Special Report on the Estimates Process.

Status of Committee Report Recommendations

Exhibit 7 of our current year's report summarizes the recommendations contained in the five 1988 Interim Reports. It also contains previous recommendations, the status of which was considered unresolved per Exhibit 9 of our 1987 Report.

EXHIBITS

Summary of Audits and Reviews Performed:

1. - Government-Wide Matters and Special Reviews.
2. - Ministry Audits.
3. - Agency of the Crown Audits, year ended March 31, 1988.
4. - Crown Controlled Corporations, year ended March 31, 1988.
5. Management Board Orders - Amounts Authorized and Expended Thereunder, year ended March 31, 1988.
6. Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports.
7. Status of Recommendations Contained in the Reports of the Standing Committee on Public Accounts to the Legislative Assembly.

EXHIBIT 1

Government-Wide Matters and Special Reviews

- * . Accountability for Transfer Payments
- * . Legislative Review of the Estimates
- * . Government Advertising and Communications Expenditures
  - Agriculture and Food
  - Energy
  - Environment
  - Housing
  - Tourism and Recreation
  - Management Board Secretariat
- * . Inspection Audit, Trent University, Ministry of Colleges and Universities

*These matters appear in Chapter 2 of this Report.

EXHIBIT 2

Ministry Audits

Cabinet Office

Community and Social Services

* . Income Maintenance Activity

Consumer and Commercial Relations

* . Registrar General Activity, Vital Statistics Information System

Culture and Communications

* . Community Facilities Activity

Education

* . Provincial Support for Elementary and Secondary Education Activity

Environment

* . Project Engineering Activity

. Utility Operations Activity

. Utility Service Revenue

Government Services

* . Computer and Telecommunication Services Program

Health

* . Hospital and Related Facilities Activity

Housing

. Repayable Grants

Municipal Affairs

. Repayable Grants

* . Unconditional Grants

Natural Resources

* . Aviation and Fire Management Activity

* . Extra Fire Fighting Activity

Office of the Lieutenant Governor

Office of the Premier

Revenue

* . Taxation Revenue - Gasoline, Diesel and Aviation Fuels, Tobacco and Land Transfer Taxes

. Unclassified Payroll

Solicitor General

. Investigations Activity

Transportation

* . Capital, Construction and Maintenance Activity

* . Design Activity

* These matters appear in Chapter 3 of this Report.

EXHIBIT 3

Agency of the Crown Audits
year ended March 31, 1988

(i) Agencies whose accounts are audited by the Provincial Auditor.

* Accountant of the Supreme Court of Ontario, The
Agricultural Rehabilitation and Development Directorate of Ontario
Alcoholism and Drug Addiction Research Foundation
* Algonquin Forestry Authority
Centennial Centre of Science and Technology, The
Commission on Election Finances
* Crop Insurance Commission of Ontario, The
* Eastern Ontario Development Corporation
Egg Fund Board (December 26)
Environmental Compensation Corporation
* Farm Income Stabilization Commission of Ontario
Fund for Milk and Cream Producers, The, - The Ontario Farm Products Marketing Commission
Grain Financial Protection Board
IDEA Information Technology Fund Inc.
IDEA Innovation Fund Inc.
IDEA Research Investment Fund Inc.
Innovation Ontario Corporation
Legal Aid Fund, Law Society of Upper Canada, The
* Liquor Control Board of Ontario
Liquor Licence Board of Ontario
Live Stock Financial Protection Board, The
McMichael Canadian Collection, The
* Niagara Parks Commission, The (October 31)
* Northern Ontario Development Corporation
Office of the Assembly
Office of the Information and Privacy Commissioner
Office of the Official Guardian
Office of the Ombudsman
Ontario Agricultural Museum
Ontario Cancer Treatment and Research Foundation, The
* Ontario Development Corporation
Ontario Educational Communications Authority, The
Ontario Film Development Corporation, The
Ontario Food Terminal Board
Ontario Heritage Foundation, The
* Ontario Housing Corporation (December 31)
Ontario Industrial Training Institute
* Ontario International Corporation
* Ontario Junior Farmer Establishment Loan Corporation, The
* Ontario Lottery Corporation
Ontario Mortgage Corporation
* Ontario Municipal Improvement Corporation, The
* Ontario Northland Transportation Commission (December 31)
* Ontario Place Corporation
Ontario Racing Commission
Ontario Stock Yards Board (June 30)
Ontario Telephone Development Corporation, The

* Ontario Waste Management Corporation
Owen Sound Transportation Company Limited, The (December 31)
Pension Commission of Ontario
Potato Financial Protection Board
Processing-Vegetable Financial Protection Board
Province of Ontario Council for the Arts
* Provincial Judges Benefits Fund
Public Complaints Commissioner
* Public Service Superannuation Fund
* Public Trustee of the Province of Ontario, The
Rent Review Hearings Board
Soldiers' Aid Commission
St. Clair Parkway Commission, The (December 31)
St. Lawrence Parks Commission, The
Star Transfer Limited (December 31)
* Superannuation Adjustment Fund
Tobacco Producers' Assistance Fund

(ii) Agencies whose accounts are audited by another auditor under the direction of the Provincial Auditor.

Board of Community Mental Health Clinic, Guelph
Clarke Institute of Psychiatry
Ontario Cancer Institute, The
Ontario Mental Health Foundation
* Teachers' Superannuation Fund (December 31)
* Toronto Area Transit Operating Authority
* Workers' Compensation Board (December 31)

NOTE: Dates in parentheses indicate fiscal periods ending on a date other than March 31.

* Audited financial statements reproduced in 1987-88 Public Accounts, the majority appearing in Volume 2.

EXHIBIT 4

Crown Controlled Corporations
year ended March 31, 1988

Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.

†		Board of Funeral Services
		Board of Governors of The Ontario Institute for Studies in Education, The
†		Board of Ophthalmic Dispensers
†		Board of Radiological Technicians
		Corporation of the Improvement District of Cameron
		Corporation of the Improvement District of Dubreuilville
		Corporation of the Improvement District of Gauthier
		Corporation of the Improvement District of Kingsford
		Corporation of the Improvement District of Matachewan
†		Corporation of the Improvement District of Shedden
†		Governing Board of Dental Technicians
		Governing Board of Denture Therapists
		Metropolitan Toronto Convention Centre Corporation
		Moosonee Development Area Board
		Ontario Board of Examiners in Psychology
†	*	Ontario Centre for Advanced Manufacturing
	*	Ontario Centre for Automotive Parts Technology
†	*	Ontario Centre for Farm Machinery and Food Processing Technology
	*	Ontario Centre for Microelectronics
†	*	Ontario Centre for Resource Machinery Technology
		Ontario Cream Producers' Marketing Board
	*	Ontario Energy Corporation
		Ontario Historical Studies Series
	*	Ontario Hydro
		Ontario Milk Marketing Board, The
		Ontario Municipal Employees Retirement Board
		Ontario Research Foundation
		Ontario Share and Deposit Insurance Corporation
		Ontario Trillium Foundation
		Royal Ontario Museum, The
†		Science North
†	*	Stadium Corporation of Ontario Limited
		Thunder Bay Ski Jumps Limited
	*	Urban Transportation Development Corporation Limited

* Audited financial statements reproduced in 1987-88 Public Accounts, the majority appearing in Volume 2.

† Audit reports and working paper files reviewed by the Office during the year ended September 30, 1988.

EXHIBIT 5

Management Board Orders
Amounts Authorized and Expended Thereunder
year ended March 31, 1988

Ministry	Date of Order	Authorized	Expended
		$	$
Agriculture and Food	Jan. 26, 1988	29,000,000	29,000,000
	Feb. 9, 1988	5,114,100	4,428,763
	Feb. 16, 1988	1,376,000	1,375,981
	Mar. 22, 1988	20,000,000	7,388,349
	Apr. 12, 1988	961,700	612,714
		56,451,800	42,805,807
Attorney General	Feb. 9, 1988	1,750,000	1,750,000
	Mar. 8, 1988	4,909,700	4,826,303
	Mar. 29, 1988	18,703,300	16,956,228
		25,363,000	23,532,531
Citizenship	Apr. 12, 1988	325,100	158,594
Colleges and Universities	Mar. 8, 1988	286,500	237,496
	Mar. 29, 1988	1,654,300	975,121
		1,940,800	1,212,617
Community and Social Services	Mar. 8, 1988	148,245,700	147,622,082
	Mar. 22, 1988	32,351,100	29,713,551
		180,596,800	177,335,633
Consumer and Commercial Relations	Feb. 2, 1988	1,249,700	1,206,888
	Mar. 8, 1988	5,138,900	4,278,132
		6,388,600	5,485,020
Correctional Services	Feb. 16, 1988	35,461,100	35,409,758
	Mar. 1, 1988	413,700	399,329
	Mar. 22, 1988	7,393,800	6,591,521
		43,268,600	42,400,608

Exhibit 5

Ministry	Date of Order	Authorized	Expended
		$	$
Culture and Communications	Jan. 19, 1988	912,300	912,300
	Mar. 1, 1988	428,700	384,711
	Mar. 8, 1988	3,593,500	3,529,313
	Mar. 29, 1988	1,358,000	1,272,192
	Apr. 12, 1988	767,600	736,682
		7,060,100	6,835,198
Office for Disabled Persons	Mar. 29, 1988	360,000	324,262
Education	Dec. 8, 1987	128,300	128,300
	Dec. 15, 1987	1,231,700	1,231,700
	Jan. 12, 1988	3,950,000	3,950,000
	Feb. 23, 1988	960,000	960,000
	Mar. 8, 1988	6,423,600	5,237,794
	Mar. 29, 1988	2,660,900	2,120,440
	Apr. 12, 1988	366,300	281,468
		15,720,800	13,909,702
Energy	Mar. 29, 1988	250,000	234,071
	Apr. 12, 1988	40,000	38,255
		290,000	272,326
Environment	Mar. 8, 1988	9,191,800	9,017,428
	Apr. 12, 1988	1,266,300	1,086,363
		10,458,100	10,103,791
Financial Institutions	Feb. 2, 1988	1,410,100	1,226,206
	Mar. 8, 1988	1,297,200	819,665
	Apr. 12, 1988	4,224,400	4,020,056
		6,931,700	6,065,927
Government Services	Mar. 29, 1988	17,807,100	17,590,443
Health	Mar. 8, 1988	3,373,400	3,373,242
	Mar. 22, 1988	60,182,000	59,972,568
	Mar. 29, 1988	6,738,400	6,514,766
	Apr. 12, 1988	203,765,100	203,247,252
		274,058,900	273,107,828

Management Board Orders

Ministry	Date of Order	Authorized	Expended
		$	$
Housing	Mar. 29, 1988	3,546,300	2,398,535
Industry, Trade and Technology	Feb. 2, 1988	550,000	550,000
	Feb. 23, 1988	154,900	153,219
	Mar. 1, 1988	84,000	78,005
	Mar. 29, 1988	2,159,600	2,105,918
	Apr. 12, 1988	1,155,900	1,146,998
		4,104,400	4,034,140
Intergovernmental Affairs	Dec. 1, 1987	852,400	852,400
	Jan. 19, 1988	217,600	217,600
	Mar. 1, 1988	165,200	86,863
	Mar. 8, 1988	636,400	552,679
	Mar. 29, 1988	221,600	148,694
		2,093,200	1,858,236
Labour	Jan. 26, 1988	770,200	770,200
	Mar. 1, 1988	408,700	404,616
	Mar. 29, 1988	4,295,200	3,909,858
		5,474,100	5,084,674
Office of the Lieutenant Governor	Mar. 29, 1988	30,000	29,431
Management Board of Cabinet	Feb. 2, 1988	801,000	801,000
	Feb. 23, 1988	361,100	358,168
	Apr. 12, 1988	3,276,600	2,829,763
		4,438,700	3,988,931
Municipal Affairs	Mar. 29, 1988	2,167,800	1,827,414
Natural Resources	July 21, 1987	3,000,000	3,000,000
	Aug. 18, 1987	3,100,000	3,100,000
	Oct. 13, 1987	3,000,000	3,000,000
	Dec. 8, 1987	2,000,000	1,602,429
	Mar. 1, 1988	902,500	902,500
	Mar. 22, 1988	16,463,100	15,698,070
		28,465,600	27,302,999

Exhibit 5

Ministry	Date of Order	Authorized	Expended
		$	$
Northern Development and Mines	Feb. 23, 1988	1,038,600	964,211
	Mar. 22, 1988	1,899,000	1,752,016
	Apr. 12, 1988	420,000	419,549
		3,357,600	3,135,776
Office of the Premier	Mar. 22, 1988	258,000	214,455
Revenue	Feb. 23, 1988	4,221,500	4,195,521
	Mar. 1, 1988	349,000	347,940
	Mar. 8, 1988	236,100	191,247
	Mar. 22, 1988	12,228,000	11,815,996
		17,034,600	16,550,704
Office Responsible for Senior Citizens Affairs	Mar. 29, 1988	125,000	104,275
Skills Development	Oct. 27, 1987	5,500,000	5,500,000
	Apr. 12, 1988	300,000	176,042
		5,800,000	5,676,042
Solicitor General	Mar. 8, 1988	25,256,900	23,909,275
Tourism and Recreation	Mar. 1, 1988	2,720,700	2,720,479
	Mar. 29, 1988	1,075,800	1,075,643
	Apr. 12, 1988	113,000	33,400
		3,909,500	3,829,522
Transportation and Communications	Mar. 1, 1988	20,121,100	19,451,332
	Mar. 8, 1988	6,888,600	6,506,432
	Apr. 12, 1988	20,389,200	19,510,501
		47,398,900	45,468,265
Treasury and Economics	Mar. 29, 1988	1,508,000	1,284,780
Total Management Board Orders		801,990,000	767,837,741

EXHIBIT 6

Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports
(See Note)

Report	Section	Description/Status
		RESOLVED AS AT DATE OF PREPARATION OF 1988 AUDITOR'S REPORT
		GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS
1987	3.3	Observations on the government payments system for goods and services. - Implemented.
1987	3.4	Improvements needed, ministry internal audit operations. - In process of implementation.
1987	3.5	Observations regarding the use of chartered and government passenger aircraft. - Implemented.
		MINISTRIES
		Ministry of the Attorney General
1985	3.4	Improvements required over management and financial controls, County and District Courts Activity. - In process of implementation.
1987	4.3	Effectiveness not measured and staff underutilized, Driver Improvement Program. - Implemented.
		Ministry of Citizenship and Culture
1985	3.5	Excess funding for construction of the Sudbury Science Centre. - Implemented.
		Ministry of Colleges and Universities
1984	3.6	Potential for improved delivery of Apprentice Training Program. - Not implemented. Ministry has difficulty in forecasting the utilization of training sessions because changing economic conditions affect the attendance of the apprentices.
1987	4.4	Additional monitoring and verification of information required, Ontario Student Assistance Program. - Substantially implemented.

Exhibit 6

Report	Section	Description/Status
		Ministry of Community and Social Services
1986	4.3	Inadequate inspection procedures, Homes for the Aged. - In process of implementation.
		Ministry of Consumer and Commercial Relations
1986	4.4	Improvements needed in controls over lottery licences. - In process of implementation.
		Ministry of the Environment
1983	3.8	Operating and other deficiencies, Environmental Control Program. - Implemented.
1987	4.7	Improved pollution enforcement procedures needed, Environmental Control Program. - In process of implementation.
		Ministry of Financial Institutions
1986	4.5	Compliance with legislation not monitored, credit unions. - In process of implementation.
		Ministry of Health
1984	3.14	Excessive costs incurred re payments under Ontario Drug Benefit Plan. - Implemented.
1984	3.15	Potential for increased revenue and recoveries, Ontario Health Insurance Plan. - Partially implemented.
1985	3.13	Observations re inspections of nursing homes. - In process of implementation.
1986	4.6	Inequitable funding arrangements and weak monitoring of public health programs. - In process of implementation.
		Ministry of Labour
1986	4.7	Improvements in operational efficiency required in Human Rights Commission Program. - In process of implementation.

Status of Previous Annual Report Recommendations

Report	Section	Description/Status
1986	4.8	Operational improvements warranted, Occupational Health and Safety Program. - In process of implementation.
		Ministry of Skills Development
1987	4.11	Excess funding and non-compliance with guidelines, Youth Opportunities Activity. - In process of implementation.
		Ministry of the Solicitor General
1987	4.12	Observations on the OPP Telecommunications Project and Office of the Chief Coroner. - In process of implementation.
		Ministry of Tourism and Recreation
1986	4.12	Weak monitoring of projects funded. - Substantially implemented.
		Ministry of Transportation and Communications
1987	4.14	Good project control but some construction priorities questionable. - Substantially implemented.
		CROWN AGENCIES
		Liquor Control Board of Ontario
1987	5.2	Operating deficiencies. - In process of implementation.
		The Niagara Parks Commission
1987	5.3	Cost evaluation suggested for police operations. - Not implemented. The Commission declined to carry out a specific cost evaluation but indicated that, on an ongoing basis, it would continue to monitor the costs and utilization of the police force.
		Ontario Housing Corporation
1987	5.4	Observations on cost overruns and other matters. - In process of implementation.

Exhibit 6

Report	Section	Description/Status
		The St. Lawrence Parks Commission
1987	5.5	Potential for savings in administration costs. - In process of implementation.
		Workers' Compensation Board
1987	5.6	Matters of concern, Downsview Rehabilitation Centre. - Partially implemented.
		IN PROCESS OF REVIEW OR TO BE VERIFIED IN FUTURE AUDITS*
		Ministry of Agriculture and Food
1987	4.2	Good administrative procedures but inadequate effectiveness indicators, Farm Interest Rate Reduction Program.
		Ministry of Correctional Services
1987	4.5	Improved administration required, Institutional Services Activity.
		Ministry of Education
1983	3.7	Deficiencies in accountability process re General Legislative Grants.
1987	4.6	Better effectiveness indicators needed, Blind, Deaf and Demonstration Schools Activity.
		Ministry of Government Services
1985	3.12	More economical and efficient use of accommodation warranted.
		Ministry of Health
1987	4.8	Weak procedures and controls, Health Insurance Program.
1987	4.9	Problems in mental health care.

Status of Previous Annual Report Recommendations

Report	Section	Description/Status
		Ministry of Northern Development and Mines
1987	4.10	Weak management practices, Mines and Minerals Program.

NOTE: This exhibit provides the status of all suggested corrective action and recommendations which were:

(a) considered unresolved per Exhibit 8 of the 1987 Auditor's Report.

(b) contained in the body of the 1987 Auditor's Report.

* As the Office conducts ministry audits on a cyclical basis, the status of the recommendations will not be determined until a future audit is scheduled for the area involved.

EXHIBIT 7

Status of Recommendations Contained in the Reports of The Standing Committee on Public Accounts to the Legislative Assembly

Introduction

This exhibit summarizes recommendations contained in the Standing Committee on Public Accounts' five Interim Reports tabled in the Legislature in 1988. The exhibit also contains previous recommendations, the status of which was considered unresolved per Exhibit 9 of our 1987 Report.

Date of Report	Recommendation/Status
March 5, 1985	**Accountability of Crown Agencies** *The Committee recommended that the Legislative Assembly examine the Provincial Auditor's concerns relating to the accountability of Crown agencies. *Status:* The Standing Committee on Government Agencies has been given the mandate to review the operation of all agencies, boards and commissions (regulatory, operating and advisory). The Committee is empowered to make recommendations regarding the accountability of agencies, the revision of their mandates and roles, and the redundancy and sunsetting of agencies. The Committee has reviewed the operations of four agencies and made recommendations in its June 1988 report.
September 19, 1986 (Interim) February 12, 1987 (Final)	*The Committee made 13 recommendations with respect to the issue of conflict of interest, including recommendations that the 1985 guidelines on the matter be studied by a special committee of the Legislature and that the guidelines be embodied in legislation. *Status:* A 1987 Bill failed to pass the third and final reading before a Provincial election was called for September 10, 1987. New conflict of interest legislation was introduced in the first session of the new Legislature as Bill #1, an Act respecting Conflicts of Interest of Members of the Assembly and the Executive Council. The Bill passed all readings and came into force on February 11, 1988. In all material respects the new Act incorporates the recommendations of the Committee and the requirements of the 1985 guidelines.
February 12, 1987	***Ministry of the Attorney General** 1. The Committee recommended that the Ministry of the Attorney General make better use of existing courtroom facilities by scheduling more trials for the summer months of July and August and that consideration be given to increasing courtroom use during evening hours.

Status of Public Accounts Committee Recommendations

Date of Report	Recommendation/Status

2. The Committee recommended that cases be heard in locations which are convenient for the accused and other parties involved, and acknowledged that efforts to address this legal jurisdictional problem were underway. The Committee further recommended that remote northern communities in particular be better served by the relocation of smaller courts to these areas.

3. The Committee recommended that the Ministry undertake a comparative study of court scheduling and procedures in other jurisdictions, particularly in the United States, to determine how its own system might be improved. The Committee accepted the Ministry's undertaking to provide the Committee with such information once it becomes available.

4. The Committee recommended that the Ministry address the problem of an insufficient number of justices of the peace by seeking to have more of these Order-in-Council appointments filled.

Status:

On June 26, 1987 the Deputy Attorney General informed the Committee that Mr. Justice T. Zuber would be reporting in July 1987 on his review of Ontario's court system. The Ministry would then address the recommendations of the Committee and Mr. Justice Zuber.

In a letter dated June 16, 1988 the Deputy Attorney General advised as follows:

1. "While the provision of courtroom facilities is the responsibility of the Ministry, trial scheduling is an area of shared responsibility with the Judiciary. Over the past year, the Attorney General has emphasized that the effective management and deployment of resources in the justice system is essential if the public is to be effectively served within available financial resources. In this regard, efforts have been underway to work with the Judiciary to attempt to ensure optimal use of courtroom facilities.

   "Currently, the Provincial Court sits on a year-round basis, with evening sittings scheduled in Toronto in the criminal and civil divisions. In the Supreme and District Courts, motions and landlord and tenant matters and pre-trial conferences continue throughout the summer months, and there are attempts made to schedule non-jury trials where possible.

   "The Ministry currently has studies underway relating to courtroom utilization, judicial resource requirements and delay reduction programs. In addition, the Ministry intends to pursue discussions with representatives of the Ontario Courts Advisory Council to identify further opportunities to maximize the use of courtroom facilities."

2. "The Ministry has established a working group, which includes representation from local groups and from other ministries, to review the issue of the administration of justice in the remote north. As part of this initiative, surveys have been conducted regarding the 'fly-in' court system

Exhibit 7

Date of Report	Recommendation/Status
	in the north and a study on the delivery of legal aid services in the remote north has been completed. The Ministry is currently assessing alternative strategies in an effort to improve court services in remote northern communities." 3. "As the Committee may be aware, the issue of effective caseflow management was one of the more significant issues raised by the Ontario Courts Inquiry in its 1987 report on the court system. Ministry staff are currently reviewing the Report's recommendations and assessing optional strategies for court reform. "Within the specific area of delay reduction and caseflow management, a working group has completed a comparative study of court scheduling practices in both the United States and Britain. In addition, a noted American expert in this area met with the Ministry's senior management team and senior members of the Judiciary for a full-day session on May 30th. Ministry staff, working closely with the Chief Judge of the Provincial Court (Criminal Division), have identified six locations where local delay reduction programmes could be implemented. The Ministry will be in a position to provide details to the Committee within the next few months with respect to these initiatives." 4. "The Ministry currently has a Bill before the Legislature to revise the Justices of the Peace Act. This legislation, which received first reading on January 6, 1988, is intended to ensure a more professional and effective level of justice of the peace service by : - establishing full-time justice of the peace positions, where possible, in order to increase the level of consistency and delivery of service throughout the province; and - establishing the position of Co-ordinator of justices of the peace, which will have direct responsibility for the overall provision of services throughout Ontario. "It is anticipated that a revised system of determining justice of the peace resource needs will be implemented as part of this initiative. In the interim, vacancies will continue to be filled as quickly as possible."
February 12, 1987	***Industrial Accident Prevention Association (IAPA)** The Committee made 20 recommendations with regard to the IAPA's financial and administrative operations and implementation of related measures to improve health and safety services. A number of these recommendations involved the Workers' Compensation Board and/or the Ministry of Labour.

Status of Public Accounts Committee Recommendations

Date of Report	Recommendation/Status
	Status :
	The status of the recommendations was obtained through our 1987/88 follow-up review of the IAPA and by correspondence from the Chairman of the Workers' Compensation Board (WCB) on June 10, 1988. Our review indicated that a concerted effort had been made by the IAPA in addressing the Committee's recommendations. Most recommendations have been implemented.
	The recommendations involving the WCB and the Ministry of Labour have been sufficiently addressed and implemented where practicable.
	1988 Interim Reports
	The Committee issued five interim reports in 1988. The Committee's recommendations related to the following areas :
May 26, 1988	1. Ministry of Health . Procedures and controls in the Ontario Health Insurance Program (OHIP) . Staffing, facilities and operations of psychiatric hospitals
June 16, 1988	2. Ministry of the Environment . Pollution enforcement procedures . Administrative practices
June 29, 1988	3. Liquor Control Board of Ontario . Inventory management, staffing and Durham warehouse operations
July 6, 1988	4. Ontario Housing Corporation . Cost overruns and other matters
August, 1988	5. Various other ministries and ministry internal audit operations, as contained in Chapters 3 and 4 of our 1987 Report.
	Status :
	As at September 30, 1988 responses had not been received.

* Considered sufficiently addressed as at September 30, 1988.